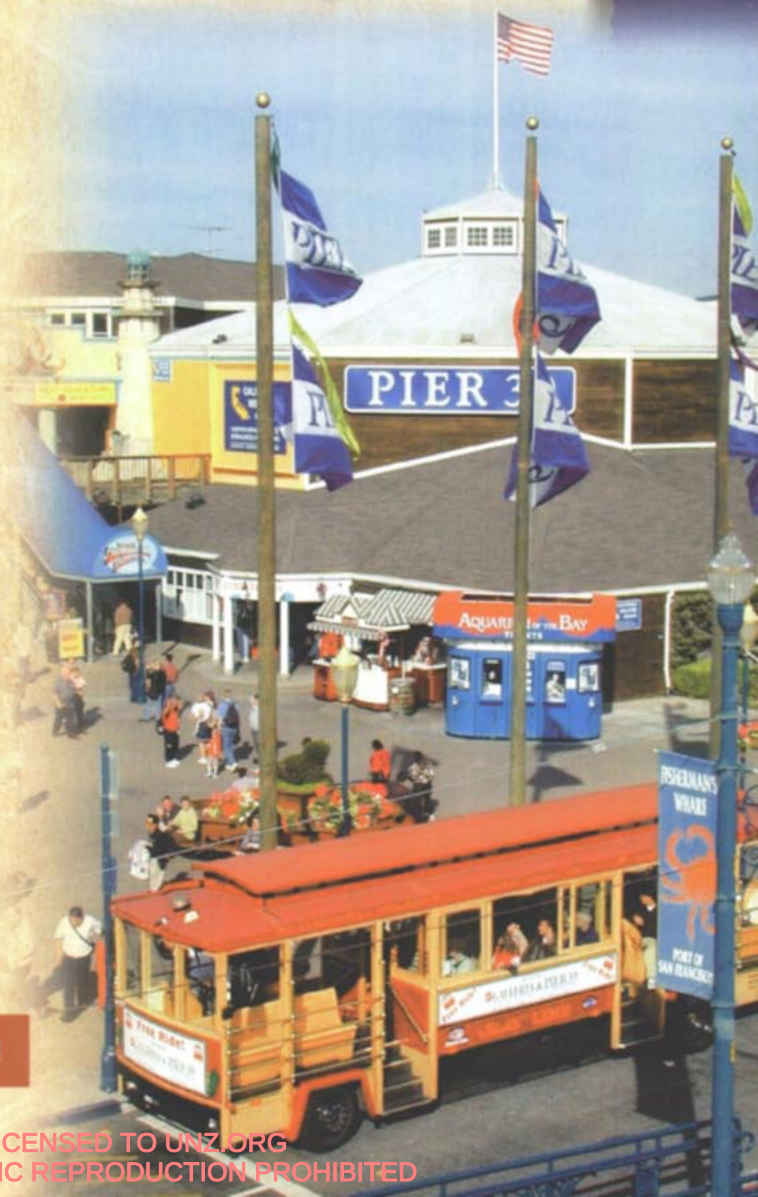
IDEAS ON LIBERTY

- The Paradox of Illiberal Cities
- Liberty, Property, and Crime
- Mises, Hayek, and the Industrial Revolution
- September 11: No Silver Lining



NOVEMBER 2001

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IDEAS ON LIBERTY

November 2001 Vol. 51, No. 11

FEATURES

8 **The Paradox of the Illiberal Cities** *by Alexander Moseley*

11 **Liberty, Property, and Crime** *by Jim Peron*

18 **The Federally Mandated Toilet Still Doesn't Work** *by Michael E. Heberling*

20 **The *Sustainable*—and Young—Hydrocarbon Energy Age** *by Robert L. Bradley, Jr.*

26 **Politicizing the Housewife** *by Wendy McElroy*

34 **Ten Years After the Bet: The More Things Change . . .** *by Michael D. Mallinger*

38 **The Trouble with Teacher Training** *by George C. Leef*

42 **A Myth Shattered: Mises, Hayek, and the Industrial Revolution** *by Thomas E. Woods Jr.*

47 **Why Economies Grow** *by Aaron Schavey*

Pier 39, San Francisco

Carnegie Mellon University Archives

Andrew Carnegie

COLUMNS

4 *FROM THE PRESIDENT'S DESK*—**One Capitalist's Advice: Attract Attention!** *by Mark Skousen*

16 *IDEAS and CONSEQUENCES*—**Ethanolics Anonymous** *by Lawrence W. Reed*

24 *POTOMAC PRINCIPLES*—**Uncle Sam's False Fuel Economy** *by Doug Bandow*

31 *THE THERAPEUTIC STATE*—**Mental Illness: Psychiatry's Phlogiston** *by Thomas Szasz*

45 *ECONOMIC NOTIONS*—**Maximum Cooperation Means Minimum Cost** *by Dwight R. Lee*

53 *THOUGHTS on FREEDOM*—**Compensate Workers Harmed by Trade?** *by Donald J. Boudreaux*

63 *THE PURSUIT of HAPPINESS*—**Bastiat and Unionism** *by Charles W. Baird*

DEPARTMENTS

2 **Perspective—No Silver Lining** *by Sheldon Richman*

6 **Consumption Can Drive Economic Growth? It Just Ain't So!** *by Christopher Lingle*

51 **Capital Letters**

55 **Book Reviews**

The Driving Force of the Market: Essays in Austrian Economics by Israel M. Kirzner, reviewed by Frédéric Sautet; **Basic Economics: A Citizen's Guide to the Economy** by Thomas Sowell, reviewed by Roger Meiners; **The Wealth of Man** by Peter Jay, reviewed by David L. Littmann; **Mail at the Millennium: Will the Postal Service Go Private?** edited by Edward L. Hudgins, reviewed by George C. Leef; **The Power of Gold: The History of an Obsession** by Peter Bernstein, reviewed by Lawrence Parks; **Can Japan Compete?** by Michael E. Porter, Hirotaka Takeuchi, and Mariko Sakakibara, reviewed by Victor A. Matheson.

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IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (914) 591–7230
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Ideas on Liberty (formerly *The Freeman: Ideas on Liberty*) is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of *private property, the free market, and limited government. FEE is* classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *Ideas on Liberty*. For delivery outside the United States: $45.00 to Canada; $55.00 to all other countries. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of this issue of *Ideas on Liberty* are $3.00 each.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to 1999. The magazine is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

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PERSPECTIVE

No Silver Lining

We often see such comments after a hurricane, tornado, or earthquake. I never expected to see it after the horrors of September 11. But there was Paul Krugman, Ph.D. in economics and a *New York Times* columnist, writing it on September 14 for all the world to see:

> Ghastly as it may seem to say this, the terror attack—like the original day of infamy, which brought an end to the Great Depression—could even do some economic good. . . .
>
> First, the driving force behind the economic slowdown has been a plunge in business investment. Now, all of a sudden, we need some new office buildings. As I've already indicated, the destruction isn't big compared with the economy, but rebuilding will generate at least some increase in business spending.

There is Frédéric Bastiat's "broken window" fallacy writ as large as it could possibly be written. For just the sheer scale of Krugman's commission of the fallacy perhaps he should be asked to return his Ph.D. It takes extraordinarily perverse vision to see a silver lining in the unfathomable destruction wreaked on New York that dark day. Does Krugman know enough to even be embarrassed by his remark?

For those who are new to Bastiat, the great nineteenth-century French classical-liberal economist, the broken window was his way of teaching us that understanding economic phenomena demands a look at the less-obvious consequences of an action or policy. He told the story of a shop window broken by a mischievous boy. As the neighbors gather to lament the shopkeeper's loss, someone (a proto-Keynesian) points out that when the shopkeeper replaces the window, money will begin to circulate through the village. The glazier will buy a hat. The milliner will buy a shirt. And so on. The resulting economic activity will bestow benefits on the entire community.

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Not so, says Bastiat. Had the window not been broken, the shopkeeper would have bought something he wanted and the money would have circulated anyway. But instead of being able to improve his situation, now he must spend the money merely to regain the position he held when the sun rose that morning. That is not a gain for him or the community. It is a loss.

The horrendous destruction of life and property on September 11 is an utter loss. Yes, billions of dollars will be spent to rebuild the lost assets. Investments will be made; people will be employed; concrete will be poured. But the tens of billions of dollars will be spent just to bring us back to where we were before, in material terms (the human capital is gone forever), when the sun rose on September 11. Think how far ahead we'd be had those crimes never occurred. In a world of scarcity, there are no silver linings in the destruction of wealth.

* * *

Cities have historically been a haven for the oppressed, yet they are also the source of the most illiberal ideas. Alexander Moseley tries to resolve that paradox.

Are libertarians really responsible for urban crime? Jim Peron examines some thinkers who believe the freedom philosophy breeds chaos.

The federal government imposes water-use standards for toilets throughout the land. Naturally, the commodes don't work. Michael Heberling relates his experience.

The would-be planners of Americans' energy use assume that the day of fossil fuels is nearing an end. The facts say otherwise, as Robert Bradley demonstrates.

Feminist opponents of capitalism are revising their conception of the housewife. The portrayal of stay-at-home moms has gone from pathetic dupe to potential child killer—but still a helpless victim of Western patriarchy. Wendy McElroy sees something wrong with this picture.

It's been over ten years since Julian Simon won his bet against Paul Ehrlich, indicating that resources are not being depleted. Simon is gone, but the controversy rages on. Michael Mallinger has a recap and an update.

What if we trained musicians the way we train teachers? George Leef says the results wouldn't be pretty.

The Industrial Revolution is generally regarded as a time of deteriorating living standards and increasing misery. Mises and Hayek knew better, says Thomas Woods Jr.

Some countries are prosperous and some are mired in poverty. That continues to mystify some people, although the keys to prosperity are anything but obscure. Aaron Schavey analyzes where wealth comes from.

As for this month's columnists: Mark Skousen pays homage to Andrew Carnegie. Lawrence Reed has advice for the champions of ethanol. Doug Bandow prefers his cars decaffeinated. Thomas Szasz says we should seek the reasons for, not the causes of, human action. Dwight Lee thinks transferable pollution permits are a better way to clear the air. Donald Boudreaux takes an ax to trade-adjustment assistance. Charles Baird relates Bastiat's views on labor unions. And Christopher Lingle, confronted with the claim that consumption drives economic growth, replies, "It Just Ain't So!"

Our reviewers report on new books by Israel Kirzner and Thomas Sowell, and others covering the history of wealth, the future of the post office, gold, and Japan.

—SHELDON RICHMAN

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From The President's Desk

by Mark Skousen

One Capitalist's Advice: Attract Attention!

"Individualism, private property, the law of accumulation of wealth, and the law of competition . . . are the highest result of human experience, the soil in which society, so far, has produced the best fruit."

—ANDREW CARNEGIE[1]

A few days after my move to New York, I paid my respects to an icon of capitalism, Andrew Carnegie (1835-1919), whose tombstone is appropriately located only a few miles up from FEE headquarters, in Sleepy Hollow Cemetery. In three ways, Carnegie reflects the spirit of FEE—he was a fierce defender of free-enterprise capitalism; he gave generously to good causes; and he worked hard for the cause of world peace and democracy. All three are in short supply in today's uncertain world of regulatory state capitalism, welfarism, and terrorism.

As a joint creator (along with J. P. Morgan) of U.S. Steel, the first billion-dollar corporation in the world, Carnegie was a successful entrepreneur who benefited humanity by offering cheaper and better steel with which to build a modern world. He would reject the "robber baron" title. Capitalism was not a device to enrich the rich at the expense of the poor, as the Marxists contend; "Capitalism," he said, "is about turning luxuries into necessities." He started out as a poor Scottish immigrant, a classic Horatio Alger hero. He liked to be different; his favorite advice to young men was, "Attract attention."

For Carnegie, there were in the world other values than those of the business culture: he loved books, and became friends with intellectuals, writers, and statesmen such as Herbert Spencer, Mark Twain, and William Gladstone. He was intensely competitive, even glorying in beating his friends in golf. In business, he drove down the cost of steel, even as he improved the quality. "Cheaper and better" became the American way. "Watch the costs, and the profits will take care of themselves," he explained.[2] He made no apologies for his ruthless competitive spirit, which he justified as a Darwinian form of "survival of the fittest" and as a fulfillment of Jesus' parable of the talents. Like an old-fashioned Hank Rearden in Ayn Rand's novel *Atlas Shrugged,* Carnegie wasn't merely an apologist for anarchic individualism; he was its celebrant.

Carnegie objected strenuously to the "progressives" who favored socialism and communism over individualism. "To those who propose to substitute Communism for this intense Individualism, the answer therefore is: The race has tried that. All progress from that barbarous day to the present time has resulted from its displacement."[3]

"The Man Who Dies Rich Dies Disgraced"

Following his retirement in 1901, the Man of Steel did not live it up with ostentatious

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mansions, limousines, and hundred-dollar cigars, which Thorstein Veblen labeled "conspicuous consumption" of the idle rich. Carnegie spoke of the millionaire's duty to live a "modest" lifestyle, shunning extravagant living and administering his wealth for the benefit of the community. To do otherwise, he warned, would encourage an age of envy and invite socialistic legislation attacking the rich through progressive taxation and other onerous anti-business regulations. Carnegie practiced what he preached, giving away over $350 million in his lifetime. One of his first acts after U.S. Steel went public was to put $5 million into a pension and benefit plan for his workers. He was careful in his philanthropy, avoiding at all costs "indiscriminate charity." He disdained the conventional practice of accumulating wealth solely to be bequeathed to heirs, which he regarded as "sterile" and even "perverse" if it resulted in profligate living. Instead, he spent millions building 2,811 public libraries, donating 7,689 organs to churches, and establishing Carnegie Hall in New York and the Carnegie Institution in Washington. He financed technical training at the Carnegie Institute of Technology and established a pension fund for teachers through the Carnegie Foundation for the Advancement of Teaching. I cannot help but think that were he alive today, he would be a major donor to FEE!

Finally, Carnegie devoted the rest of his life to promoting world peace and democracy. He was convinced that the United States surpassed Europe economically in part because Europe was constantly embroiled in wars with its neighbors while the United States largely avoided such conflicts. He campaigned against imperialistic entanglements with other nations and in favor of peaceful arbitration as a means to end conflicts. He was a passionate believer in democracy, universal suffrage, and equality of opportunity through free public education. But he opposed equality of property or ability, and argued that all citizens had the right to choose their own occupation and had the right to earn income in any amount and spend it as they wished. He expressed distaste for royalty, aristocracy, and any form of state religion.

The Spirit of Andrew Carnegie Lives at FEE

Today I am happy to report that the world has a goodly share of modern-day Andrew Carnegies. As the new president of FEE, I have had the pleasure of becoming aware of these unique men and women of the business world who have not only added value to the global economy through their entrepreneurial efforts, but have sacrificed time and money to promote FEE and its mission. For example, last week Larry Reed, president of the Mackinac Center for Public Policy and a FEE trustee, told me about a FEE donor who spent half his life sponsoring FEE seminars on free-market economics in his hometown, often at considerable personal sacrifice of time and financial resources. Another individual, on hearing that a FEE student seminar might have to be canceled due to a lack of attendees, arranged for several dozen students to attend. The seminar turned out to be a great success. Hundreds of other FEE supporters have arranged conferences, raised funds, and distributed copies of *Ideas on Liberty* to their friends and acquaintances. And with your help we are planning many new programs to spread the gospel of FEE and to "attract attention," as Andrew Carnegie would advise.

When barbaric terrorists destroyed the Twin Towers at the World Trade Center—a symbol of global capitalism and individual creativity, and built with Carnegie steel—I was heartened to read how thousands of private business leaders stepped forward and provided $200 million in financial aid to rebuild the area. I salute them for being living examples of FEE's gospel of peace, prosperity, and freedom. □

1. Andrew Carnegie, *The Gospel of Wealth and Other Timely Essays* (Cambridge: Harvard University Press, 1962 [1900]), p. 19.
2. Michael Klepper and Robert Gunther, "Andrew Carnegie," in *The Wealthy 100* (New York: Carol Publishing Group, 1996), p. 31.
3. Carnegie, p. 18.

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IDEAS ON LIBERTY
NOVEMBER 2001

Consumption Can Drive Economic Growth?

It Just Ain't So!

Perhaps one of the biggest misconceptions about America's recent period of high growth is that consumption was the principal driver behind it. Embodied as the notion of a so-called wealth effect, the misconception is so deeply entrenched that its internal contradictions are overlooked and alternative views are simply ignored. As it is, this misguided thinking is used in diverse settings to (mis)interpret economic conditions.

For example, consumer spending cannot keep America's economy afloat for much longer. Nor should it be expected to be the driving force behind the revival of Japan's. By the same token, lagging household consumption should not be blamed for Japan's ongoing economic malaise. For it is only investments that find their way into productive activities, especially in manufacturing, that can bring sustained boosts to an economy. Consumer spending is not a key indicator, as many have portrayed it. (A counterargument to consumption-driven growth is that the wealth effect that was supposed to have powered the U.S. economy did not operate in reverse when the stock market collapsed and considerable sums of wealth evaporated.)

Without an increase in real earnings brought about by rising real income from increased productivity, an economic boom on the back of consumption will be an illusion. In the case of the United States, the usual suspect was an expansion in credit that promoted binge buying and an imaginary wealth effect.

In most instances, consumption is the result rather than the cause of growth. An exception occurs when promiscuous central-bank policy causes excessive expansion of credit. But this can only create an artificial and temporary sense of increased prosperity that eventually is brought to an end either by a bruising round of inflation or an overexpansion that leads to a collapse in profitability.

Credit expansions lead to a decline in interest rates and usually result in rising nominal incomes. As the financial system becomes flooded by cheap credit, people feel that they are becoming more prosperous and begin to expand their consumption through increased debt. As the demand for consumer goods increases relative to the demand for producer goods, inputs are bid away from more complex productive activities at higher stages in the production process. This puts cost pressures on firms in those higher stages and will eventually cut into profits.

And so it is that cyclical downturns are brought about by falling profits that result from faulty credit policy. This always first appears in manufacturing and tends to be pronounced in the higher stages of production that require more sophisticated capital inputs.

So what is going on now? Why is consumption remaining so high in the United States and why is it not possible for it to reverse the negative economic trends? The effects of excessive credit growth can survive an initial slump in business conditions because binge borrowing is like other bad habits and broken slowly. American households have been spending like there is no tomorrow because the credit taps were opened wide enough to allow them to borrow money cheap.

Masked by Consumer Spending

Yet the collective gaze will begin to shift to longer time horizons as job cuts become deeper and more workers face the prospect of losing their jobs. While manufacturing tends to decline first, continued consumer spending

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disguises this effect by keeping the demand for labor at lower stages of production comparatively stable. Consequently, the unemployment level does not rise sharply.

But now the declines in U.S. manufacturing are becoming too large not to have an impact on investment spending needed to create new jobs. The latest data indicate that the sector has suffered deep cuts in employment. As it is, over 113,000 manufacturing jobs were lost in June after 127,000 were shed in May. And more layoffs were planned. Declining profits lead to a decrease in capacity utilization so that unsold goods begin to accumulate. (According to the Fed, excess capacity is at the highest level in almost 20 years.) As profits fall, employment and retail sales also go down. Consequently, an industrial slowdown brings about excess capacity and rising inventories.

Both these problems will emerge even if there are continued advances in technology. An indicator of the magnitude of these problems is seen in shrinking dividends. As a percentage of prices, dividends are now about 2 percent, substantially lower than their historical average of 4.5 percent. It turns out that yields of 2 percent or less have preceded economic slumps. Although slowing profits are causing dividends to fall, the real cause is overheated monetary growth and credit expansion that caused shares to be overvalued.

Unfortunately, cheap-money policies will not resolve the fundamental economic imbalances. Indeed, additional rounds of interest-rate declines may actually worsen them.

With debt-servicing expenditures as a percentage of American household income at a record high, it becomes increasingly problematic when mortgage debt is used to finance other debts or maintain consumption levels. As it turns out, interest-rate cuts have encouraged an expansion in second mortgages and long-term refinancing to consolidate short-term debts, like credit cards, that demand higher interest rates. Eventually, additional consumption borrowing will lead to a crushing debt burden that brings personal bankruptcies and weaknesses in the banking system. In turn, the collapse of consumption will contribute to business failures and more weaknesses in the banking system.

Where does this all lead us? The first lesson is that fiddling with credit policies is the source of all modern booms and busts. Understanding this involves the realization that market instability is not the source of most economic turmoil. Likewise, government actions are the source of extreme swings in economic activity and are unlikely to provide the best cure for them.

In fact, government interventions in credit markets or the use of deficit spending can only shift the pain from the present to the future. Since politicians almost always choose this cowardly path, their actions provide more evidence that decisions based on politics seldom lead to sound economic outcomes.

Unfortunately, the painful adjustments of squeezing out excess capacity will require substantial downsizing so that labor is released and used in more productive sectors of the economy. It may seem unjust that some individuals will bear the brunt of the suffering. However, it might provide some solace that most others will benefit from the process. And these include youthful new job-market entrants who would otherwise shoulder the burden of delayed adjustments that would reduce future growth rates and job opportunities for them. □

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IDEAS ON LIBERTY
NOVEMBER 2001

The Paradox of the Illiberal Cities

by Alexander Moseley

Cities have often been the bastions of enlightened living that abolish the prejudices which taint rural life. But while urban residents may be free from the invasive gossip and restrictive social codes of conduct that characterize small towns and villages, that does not mean that they are imbued with the philosophy of freedom or the will to defend it. In fact the opposite is increasingly becoming the case as city populations expand economically and demographically.

The clash between the liberal (libertarian) countryside and the illiberal city has come to a head in my country, England, where an urban majority seeks to give urban ramblers "freedom to roam" at will over private land at the same time as it seeks the abolition of hunting (with fishing next on the agenda).

Urban populations typically vote for greater government control and hence more interference than rural populations do. The paradox is that city people are less restrained, yet they seek political interference in their own and others' lives.

A superficial resolution of this paradox comes from public-choice theory in economics, in which people's voting habits are examined from the perspective of the costs and benefits accruing from the various political programs that they vote for. City life brings greater and more visible opportunities for public works: from public transport, water and sewage systems, roads and bypasses to schools, hospitals, and fire and police stations.

Urban populations, so relatively cramped together, perceive the benefits of a uniform infrastructure, which they can all use at marginally little extra cost. This is particularly so, however, when the cities and towns are subsidized by the central government or by business taxes, and the full cost of such programs does not fall on the voter. Businesses notably are milked as cash cows, for their owners do not receive more votes than other citizens for the greater amount they pay in taxes. Thus socialized systems will flourish in urban environments, and politically, therefore, urban groups are more likely to seek government intervention as the panacea for all their concerns.

On the other hand, the urban world is morally liberating, and throughout the ages cities have often been seen as possessing more "lax" values than their rural counterparts. Individualists of various political and religious hues sought freedom in the famed cities of old, fleeing the authoritarian prejudices of the village or the control of the pastor or governing families, or escaping the lack of opportunity or poverty in a farming life.

In the modern world, people have fled to Paris, Florence, Rome, Amsterdam, Vienna, London, and of course, last century, to New

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York. Once in the urban melting pot, whichever country they find themselves in, the new migrants adapt slowly to city ways, dropping traditional customs that are no longer useful in vastly populated and built-up areas. City populations evolve a more liberal and tolerant culture concerning different creeds, races, sexual conduct, marriage, and so on.

The grounds of paradox are thus complete. City people strive for moral freedom coupled with political and economic interference. The two never sit well together of course, for as a man's pocket is taxed, the less free he is to spend his money as he sees fit and thus less free to pursue the lifestyle of his choosing. Ultimately, the expansion of urban controls drives people to freer cities.

But then another problem arises for urban people. In the anonymity of the city, criminals may flourish, thereby stimulating demands for intervention in personal lives and draconian measures about what neighbors may or may not do. In many English cities, the police watch over the shopping malls and streets with video cameras to catch and deter thieves and muggers. To combat the hidden criminal, urban police authorities are calling for mandatory DNA banks and for an expansion in the use of cameras—especially on the roads—to clock passing license plates.

The relative lack of crime in the villages could not economically warrant the network of cameras one sees in the cities. But as the technology improves and the costs fall, the possibility should not be written off.

Recent television programs also reflect the urban desire to demolish any last barriers to privacy and to open the lid on the intimate lives of neighbors filmed in a house or on an island. An Englishman's home was once his castle, but the advent of camcorders and live soaps has begun to remove any proper cultural notion of privacy (and intimacy) that country people would fight to defend.

Another damaging urban development thereby arises: the once anonymous life of the urban dweller is opened up by technology, and the last bastion of freedom, the right to privacy, is chipped away at—in the case of the city populations by their very own sanction!

Yet when we consider the problem a little more, we can see where the paradoxes arise.

Division of Labor

Cities are certainly liberating. The vast division and specialization of labor characteristic of cities reduce the burden of daily chores and thus free more people, women especially, to work, and more people overall into possibly a more intensive and enjoyable life than the countryside could ever provide.

Herein lies the rub, as Hamlet said. Rural life keeps man closer to nature and closer to his own nature. Cities remove consumers from production processes that rural inhabitants would normally have been aware of; a visit to any pioneer village amply demonstrates the fascination of visitors with seeing something made from start to finish. Today's urban consumers—several generations removed from their rural ancestors—are ignorant of where their food comes from or how it is processed. In part this is because markets are so exceedingly good at resource distribution. One does not have to be a butcher to enjoy a rack of lamb's ribs, nor does one have to be aware of the abattoir, of the farmer that raised the lamb, or even of the lambs themselves in the field.

The success of the market system in bringing food to the table year-round with few visible shortages is thoroughly to be applauded. Never has the threat of widespread famine diminished so much in man's history.

However, urbanites are increasingly in danger of severing all comprehension of the causal connections between the food they eat and the complex production process it entails. We all hear stories of inner-city kids who grow up without seeing a cow or a forest. Our reaction to their plight is one of pity and of a desire to educate them—to take them out to the farms to pet the animals or to show them conservation in action.

But why should we care? Surely, if the children can eat their burgers and never have to suffer from starvation because the market system ensures that supermarkets and convenience stores are continually stocked, then we should have no concerns at all.

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Roots Are Severed

But this is when we bring together the strands of the argument: cities produce thoroughly artificial environments, in which man's roots to the natural world are severed. Camping in the nation's natural parks may give the city family a tiny glimpse of the natural world, but that cannot replace an understanding of what life is like for those who live full-time "in the woods."

The danger looms that the city folk will become offended by rural ways—the slaughtering of animals (for the meat they eat), the cutting down of forests (for the paper they use), the hunting of wild animals (for food and for conservation)—and that their offense will turn to a desire to intervene politically to abolish those ways, which city folk neither understand nor participate in. An urban gay student of mine, for example, wishes to ban hunting and does not see any hypocrisy in his opinions with regards to his own rights.

England is a densely populated nation: over 40 million live in an area that would easily fit into Oregon. It is intensely urban, and in recent years it has become increasingly divided between the city and the countryside. The city dwellers typically vote for economic intervention, and since more voters live in the cities, we face the real prospect of "countrycide," the death of the country and of its ways, because they are morally offensive to urbanites.

Hunting with hounds, for example, is deemed cruel and barbaric by many city folk and in the last UK Parliament they came within a hair's breadth of abolishing it. Indeed, it looks as if the Prime Minister may even use the Parliament Act to overrule any second-chamber dissension on the matter. Such MPs who will vote for hunting's abolition, and the voting urban population behind them, are driven by foolhardy opinions on animal rights and a strong media presentation of animals as "little furry people." Urbanites' view of the countryside is often through car windows or through edited and politically biased television news. (The UK government indirectly controls three of the five main land stations.) Their knowledge is rarely from close-up or from talking to rural people, never mind actually experiencing a hunt.

The protracted violation of rural liberties is of course as reprehensible as rural people's demanding the prohibition of city lifestyles: freedom ought not to be curtailed as long as it does not violate another *human being's* rights. The increasing alienation of city life from the complexities of rural life does not augur well either for rural liberties or for liberties in general.

A lack of understanding of market processes parallels the lack of understanding of rural ways, particularly those that seem harsh to cosseted urbanites, whose activists take up the war against "free-market forces" one day and "hunting with dogs" another. They are essentially ignorant of the foundations on which their own freedoms to complain are built. Increasingly in my country, it is those conservative rural ways—of the red-coated huntsman with his hounds—that are becoming the symbols of freedom. □

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IDEAS ON LIBERTY
NOVEMBER 2001

Liberty, Property, and Crime

by Jim Peron

No society can long exist in a climate of rampant crime, especially if it is properly defined as any act that violates the life, liberty, or property of another. And when the term "crime" is used, that is generally what people mean. Of course many people, perhaps most, would also include victimless crimes such as drug use or prostitution, but their principal definition would entail real victims.

Crime is a worrisome issue and rightly so. Solutions to crime problems are always of interest to policymakers, law enforcers, and potential victims. One solution to the crime problem has been the "broken window" policy that has been used in New York City. The term "broken window" comes from a 1982 essay written by professors James Q. Wilson and George L. Kelling.

The basic premise of this policy is, as Wilson explains, "Small disorders lead to larger and larger ones, and perhaps even to crime." Wilson and Kelling posit the breaking of a window in a building. Kids walking past the building assume that no one cares about the windows since the broken one is left unfixed. So they throw rocks and break a few other windows. Now it appears that no one cares about what happens on this street, and soon other buildings are damaged. And then: "Only the young, the criminal, or the foolhardy have any business on an unprotected avenue, and so more and more citizens will abandon the street to those they assume prowl it."[1]

In their original article Wilson and Kelling argue: "serious street crime flourishes in areas in which disorderly behavior goes unchecked. The unchecked panhandler is, in effect, the first broken window. Muggers and robbers, whether opportunistic or professional, believe they reduce their chances of being caught or even identified if they operate on streets where potential victims are already intimidated by prevailing conditions. If the neighborhood cannot keep a bothersome panhandler from annoying passersby, the thief may reason, it is even less likely to call the police to identify a potential mugger or to interfere if that mugging actually takes place."[2]

The broken-window illustration may be a bit strained, but certainly many of the issues that Wilson and Kelling raise are not. They note that if homeless people are allowed to congregate and live in public parks, crime quickly follows. A concentration of adult shops in one small area, like Times Square or Boston's "Combat Zone" has the same effect. If five or six adult shops are operating in a two-block area, they may well attract street prostitutes. Along with the prostitutes come pimps and often drug dealers. Many of the prostitutes use drugs, and the dealers are only too happy to be where their customers work. But the dealers also attract other users who may be quite willing to commit an armed robbery or two to finance their drug use. Of course as these groups of people are attracted

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to the area, other groups are discouraged from living or shopping there. Grocery stores may close down. Families may move out. The streets become a haven for the most marginalized segments of society. And this type of blight can easily spread to surrounding areas as well. All in all it's not a pretty picture.

Now who is responsible for all this? Who brought on this explosion of crime since the 1960s? Kelling, in his book *Fixing Broken Windows,* written with Catherine Coles of Harvard's Kennedy School of Government, says the culprits are libertarians. His visceral dislike of libertarians is evident throughout his book. Crime is a problem of social disorder, and social disorder is caused when libertarians successfully push for individual rights and liberty.

Libertarians would be shocked to learn that their ideology is the reigning concept of criminal justice in America, let alone responsible for all sorts of ills. Kelling and Coles write: "[F]irst, a broad societal ideology holds certain individual rights as absolute and virtually divorced from responsibility and obligation. This ideology gave rise to the idea that all forms of nonviolent deviance should be tolerated in the interest of liberty—a belief that order maintenance confronts directly. Second, the reigning criminal justice strategy is consistent with this libertarian ideology."[3]

Again they make their position clear: "The increase in urban disorder that has occurred in the past thirty years, in many senses, is rooted in these very changes: the emphasis on individual rights tied to the culture of individualism helped spur an increase in deviant behavior on city streets."[4] Elsewhere they speak of "radical libertarians who would perpetuate urban chaos in the name of 'liberty interests' and exaggerated fear of police abuses."[5] So not only does libertarianism lead to crime but it leads to "urban chaos" as well!

Rights and the Common Good

It should come as no surprise that Kelling, Coles, and Wilson all argue that individual rights have to be compromised in the name of the social good. They see this as a "tension between 'rights' proponents, who argue that curbing disorderly conduct, often described by them as 'speech' or expressive behavior, violates their fundamental liberties, and 'communitarians' or 'universalists,' who contend that the rights of individuals must at times give way to communal values and structures so that basic order can be maintained in a larger community."[6]

Anti-libertarian John Gray takes this to even further extremes. Gray referred to the "ongoing implosion of the United States" in his book *Endgames.*[7] In *Enlightenment's Wake* he predicted "the likelihood in the United States is of a slow slide into ungovernability."[8] Kelling, Wilson, and Coles see libertarianism as leading to crime and urban chaos. Gray argues it is leading to the destruction of Western civilization, but the process is the same: "The libertarian condemnation of the state and celebration of the free market is a recipe for social breakdown and political instability."[9] "Communities," Gray writes, "need shelter from the gale of market competition, else they will be scattered to the winds."[10]

According to the "broken window" theory, libertarianism, by promoting individual rights and "liberty interests," is causing the decay of urban society. Cumulatively, Gray writes, this is leading to the destruction of Western society. When New York City cracked down on what had been considered minor acts of disorder, a major drop in crime followed. For these theorists this proves that subjugating individual rights and liberty is the way for society to achieve stability and peace. And if this were true, it would be a telling indictment of the evils of libertarianism. But is this true?

Theory Confirmed?

Kelling and Coles present varied examples that they believe confirm their theory. Looking at them individually is informative. One example they use, in several chapters, is the effect of the "homeless" on the general climate of San Francisco. They write: "For example, in San Francisco, city workers attempting to carry out cleaning and maintenance activities in public parks, plazas, and streets were physically threatened by people living in encampments there, and faced sig-

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nificant health risks from having to pick up debris consisting of needles, human waste, and garbage. In addition, these encampments became centers for drug use, crack cocaine dealing, and theft that spilled over into surrounding neighborhoods. Individuals intoxicated by alcohol or drugs lounged and slept in doorways of businesses or even homes, and intimidated residents, customers and pedestrians."

This description, if anything, is too restrained. Kelling and Coles are absolutely right. As an ex-San Franciscan myself I witnessed exactly this type of decay. And on a visit to the city a couple of years ago it was clear that this problem had escalated.

But how is libertarianism responsible for this problem? Presumably giving these people the right to camp out on the mall next to City Hall is a "liberty interest." Yet while liberty is a fundamental principle of libertarian thinking, it is not the only principle. Issues of rights and property also apply. And libertarians have long pointed out that when property is communally owned, conflicts automatically arise. Where are the "homeless" building their encampments? According to Kelling and Coles, this is taking place "in public parks, plazas, and streets"—on public, not private, property.

San Francisco offers a striking lesson about property rights. The famed cable car has a line that runs from Powell and Market Streets to Fisherman's Wharf. At the beginning of the line the streets are dirty. Drugged-out or alcoholic derelicts harass those waiting in line for the cable cars. Street preachers walk through the crowd screaming their message of hell fire and brimstone at tourists who don't appreciate the gesture. The entire experience is not one that people relish. But after disembarking the tourist finds Pier 39, which juts out into San Francisco Bay. The pier itself is larger than the area around Powell and Market. It is a couple of blocks long and filled with dozens and dozens of shops and restaurants. It has small plazas where entertainers perform. It is clean. It is safe. And there are no derelicts or unwanted evangelists harassing customers.

Why this difference? Pier 39 is run privately.

Rights Rooted in Property

Rights are exercised in a physical world. Man is not an ethereal creature floating in some abstract universe. When rights are exercised they are exercised on property and often require the use of property. A man who drinks himself into a stupor in his living room uses liquor that he paid for and passes out on a floor he owns. The same action in a park or on a public street takes place on property that is supposedly "commonly" owned. The conflict created by his actions exists only because the property is held socialistically instead of privately. Disney World doesn't have problems with drug use on the streets or drunken panhandlers harassing people waiting for one of the rides. It doesn't have the problem because it owns the property on which such actions would take place and has every right to stop such actions. Communal ownership creates conflicts that private property helps avert.

Court rulings that allow public drunkenness, panhandling, or a variety of other "disorderly" conduct do so because they apply to public, not private property. Libertarians have often been condemned for their fervent belief that privatization of "public" resources would solve a myriad of problems. Yet in this case they are also blamed for the results of policies that go completely contrary to their recommendations.

Anyone who has lived in San Francisco for any period knows that the city is a magnet for the so-called homeless. Many of these people are alcoholics or drug addicts. Most are single men, not mothers with children, as socialists like to pretend. So what draws these derelicts to the city? The city government is quite generous with the public purse. A "homeless" man in San Francisco will not only qualify for Social Security benefits and for state benefits, but also the city's own dole. To qualify for this extra money, one only needs to live in the city for 24 hours.

Radical socialist groups in the city, which hate libertarians with a passion, have pushed through policies that forbid rousting these people from public property. No park, no plaza, no street is safe. Once a critical level of disorderly individuals congregates, the area suffers in every way. How are libertarians

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responsible? What "liberty interest" is there in having access to other people's money? How are advocates of private property responsible for the problems associated with public property?

Subway Panhandlers

Kelling and Coles also point to the problems of panhandlers on the New York subway system. But once again, the subways in New York are government property. While originally privately built, the subway companies were forced out of business by government price regulations. The city then proclaimed a "market" failure and took control. By the '60s panhandling, public drunkenness, and the like became a problem.

Other examples of social disorder that Kelling and Coles refer to include prostitution and adult bookshops. Libertarian Lysander Spooner drew the distinction between crimes and vices in the middle of the nineteenth century. Since then libertarians have argued for the legality of "anything that's peaceful." Yet prostitutes hanging around outside an apartment complex bring down the neighborhood in many ways. Doesn't this violate someone's rights?

Kelling and Coles tell of the prostitution problem in San Francisco's Tenderloin neighborhood: "Most persons opposed to prostitution in San Francisco's Tenderloin area, for example, are not prudish vigilantes concerned about commercial sex as a matter of principle. They simply object to the promiscuous behavior of prostitutes and johns, who publicly commit sex acts in parked cars, discard prophylactics and needles on sidewalks, door stoops, and in public parks, unmindful of the play of children, and who disregard public requests for some circumspection in their behavior."[11]

Yet the prostitutes are using public property—sidewalks, street corners, and parks—to promote their trade. The situation isn't optimal for them. It exposes them to the elements and to criminals and other dangers. But since prostitution is illegal, it is difficult to operate out of one location. A brothel operating openly would be closed down immediately in most major cities. The illegality of the business forces prostitutes to use public property. But when a government regulation forces individuals to use public property, who gets the blame? Why, free-market, private-property libertarians of course.

A few miles from my home in Johannesburg there was an infamous brothel named The Ranch. It operated in one of the most upmarket suburbs in the city. It was widely advertised and widely known. The general reluctance of South African police to enforce any law had led to the de facto decriminalization of prostitution. Yet streetwalkers were a relative rarity. Instead, dozens of brothels, like The Ranch, appeared around the city. When The Ranch's owner publicly complained about police corruption, he was immediately targeted. Using asset-forfeiture laws copied from the United States, the police confiscated the massive mansion from which the brothel operated, along with the owner's home, bank accounts, cars, and more.

Surprisingly, hundreds of people gathered outside The Ranch to protest this persecution. Many were workers from the brothel, upset that they were now unemployed. But many were housewives and other neighbors who lived on the same street. Almost without exception, these people said The Ranch had been a good neighbor. One woman, who lived on the street, said she never even realized that the brothel was there. All the deficits that Kelling and Coles lament seemed absent, because while prostitution was de facto legal, the women and their clients preferred the safety of the house. When liberty interests were allowed to operate within the confines of private property, the notorious and noxious results of prostitution were absent.

The same appears to be true with adult sex shops. I walked through Times Square in New York City when it was the center of the porn trade there. It was a pretty sordid place. I've been in Boston's "Combat Zone" and seen exactly the same results. Kelling and Coles seem to believe that this is simply the inevitable result of adult material and that banning it is the solution. But once again these noxious consequences are completely absent around adult shops in Johannesburg. Why?

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Many local governments in the United States wanted to regulate pornography out of existence. But the Supreme Court ruled that the First Amendment would not allow this type of blatant censorship. The local politicians then tried to regulate it indirectly. A favorite method was zoning. Often one specified area of the city was designated an unofficial "red light" district. In other cases the laws were so restrictive that only a few small areas would qualify for these businesses. The result was that shops were forced to concentrate in a tiny area of the city, with all the noxious effects that Kelling and Coles describe.

In South Africa the Constitutional Court ruled the old apartheid censorship laws invalid. Without any regulatory system in place dozens of mom-and-pop porn shops opened, scattered throughout the country and all across the major cities. Since there are no special zoning restrictions, they are not concentrated in one neighborhood. The locations vary: up-market areas, near shopping centers, on the periphery of residential areas, and in working-class neighborhoods. In my day-to-day driving around the city I must pass around 20 of these shops. Prostitutes do not operate outside them since the customer level at any one shop is insufficient to provide them a lucrative return. That only comes about when several shops are forced onto the same street. There are also no pimps or drug dealers.

In a sense Wilson, Kelling, and Coles are correct. Given collective ownership of parks, plazas, streets, and sidewalks, various "deviants" will stake their own claims to these areas. To prevent social decay their "liberty interests" will have to be restricted. But liberty need not be sacrificed to order. As the masthead of Benjamin Tucker's publication *Liberty* stated (paraphrasing Proudhon): "Liberty: not the daughter but the mother of order." Certainly liberty unrestrained by property rights will lead to conflicts, but that is not libertarianism. A free market without property rights is a contradiction in terms. All the problems of social order that the "broken window" policy is meant to fix are direct results of the lack of private property. This being the case, the blame lies not with libertarians but with those who restrict private property, individual rights, and liberty. □

1. James Q. Wilson, "Foreword" in George Kelling and Catherine Coles, *Fixing Broken Windows* (New York: The Free Press, 1996), p. xv.
2. James Q. Wilson and George L. Kelling, "The Police and Neighborhood Safety," *The Atlantic*, March 1982, p. 34.
3. Kelling and Coles, p. 6.
4. Ibid., p. 42.
5. Ibid., p. 148.
6. Ibid., pp. 49–50.
7. John Gray, *Endgames: Questions in Late Modern Political Thought* (Cambridge, England: Polity Press, 1997), p.112.
8. John Gray, *Enlightenment's Wake: Politics and Culture at the Close of the Modern Age* (London: Routledge, 1995), p. 24.
9. Gray, *Endgames,* p. 133.
10. Gray, *Enlightenment's Wake,* p. 112.
11. Kelling and Coles, p. 4.

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IDEAS ON LIBERTY
NOVEMBER 2001

Ethanolics Anonymous

Someone once said insanity is doing the same thing over and over again and each time expecting different results. If that's so, then what the politicians are doing these days for a corn-based fuel called ethanol would seem to be certifiably insane.

In June the Bush administration reported to Congress that the federal ethanol incentive program has done precisely the opposite of what was intended. Instead of reducing gasoline consumption, foreign oil dependency, and air pollution, the program caused Americans to use 473 million *more* gallons of gasoline in 2000 than in 1999. In fact, if this program remains in place, it actually will increase gasoline use by 9 billion gallons from 2005 to 2008.

Virtually every independent assessment of ethanol has shown that it's unjustified by both science and economics. The official effort to push ethanol has failed to live up to any of its stated goals. So in the face of this manifest boondoggle, what's the administration recommending? Continue the program and possibly even expand it.

But before we diagnose the malady here as insanity, let's take a closer look at what's going on.

Ethanol is costly to produce. Experts, including Jerry Taylor of the Cato Institute, estimate that ethanol would cost at least a dollar more per gallon than regular gas without its menagerie of special state and federal tax breaks, subsidies, and incentive programs. As Paul Gigot of the *Wall Street Journal* reminds us, ethanol is produced by mixing corn with our tax dollars.

At the federal level, gasoline with 10 percent ethanol gets a special 5.4 cents per-gallon tax break from the federal fuel excise tax rate of 18.4 cents per gallon for regular gasoline. Additionally, companies that blend ethanol are eligible for certain federal tax reductions. It's not a subsidy when government taxes you less, but when politicians treat one fuel differently from another, they rig the market in favor of what they like and against what they don't.

Mandates are another way for government to rig a market. Simply pass a law or promulgate a regulation that requires people to buy something they might not otherwise buy. Proposals abound for both Washington and state governments to mandate ethanol use. The Bush administration and congressional leaders are considering legislation requiring that all gasoline sold in the United States contain 10 percent ethanol, a blend all automobiles can use. Similar bills are in the hoppers in a number of state legislatures.

Actual subsidies *are* in play in certain farm states. South Dakota, for example, doles out tax dollars directly to ethanol plants at the rate of 20 cents per gallon. Plants in just three South Dakota towns—Aberdeen, Huron, and Scotland—will collect $3.1 million in hand-

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outs this year alone. South Dakota corn farmers complain that their state is too stingy; Minnesota and Nebraska pay even higher subsidies.

The federal government lets Detroit build a greater number of large, less-efficient cars if automakers also manufacture a specified number of vehicles that can use both regular gasoline and the slightly cleaner-burning ethanol. The theory is that if enough ethanol-burning cars are driving around, the supposed benefits—cleaner air and greater use of a renewable, domestic energy source—will outweigh the pollution and oil dependency wrought by the greater number of gas guzzlers.

Of course, this does not happen in practice. First, ethanol is no air-pollution panacea. Its boosters in the agriculture industry certainly tout ethanol's supposed environmental benefits. But while ethanol does emit less carbon monoxide when burned, it appears to have no impact on the release of toxic ozone, a worse pollutant, and may even produce more of it.

Can the Car Burn It?

Another problem is that for people to use ethanol, they must have an automobile that can burn it. And if they have one, they need to know about it. And if they have one and know about it, they have to have a gas station that sells it.

Yet only 101 service stations in the entire United States actually sell "E-85," the blend of 85 percent ethanol and 15 percent gasoline used by "flexible fuel vehicles" (FFVs). And practically none of the owners of the 1.2 million Chrysler minivans, Chevrolet S-10 pickups, and Ford Taurus sedans and Windstar minivans that burn E-85 knows it. There are over 75,000 FFVs registered in my state of Michigan, yet the pro-subsidy Michigan Ethanol Working Group recently felt it necessary to send postcards informing owners that their vehicles will burn E-85—which only eight Michigan service stations sell.

So if the science and economics of ethanol make no sense, doesn't the continued support for it by politicians suggest insanity is at work here? Not at all. It's just another case of government being government. Follow the money and it turns out that ethanol makes perfect sense for its most fervent champions. It's an annual $3 billion business; corn farmers and ethanol processors stand to rake in billions more if the stuff catches on as an alternative fuel. In a free market, it's hard to see how it could get to first base, but the politicians who are rigging the market on its behalf are often, quite simply, bought and paid for by the folks who make their living from it. The largest producer of ethanol, the Archer-Daniels-Midland Company of Decatur, Illinois, gives millions of campaign dollars to politicians of both parties who support special privileges and handouts for ethanol.

The issue is not so much the use of ethanol or the manufacture of ethanol-using automobiles or the building of ethanol plants or the desire of farmers or refiners to make money from ethanol. The issue is the proper and prudent use of government power: Government simply has no business rigging the market for the politically well-connected.

What we have here is not insanity, but an addiction. Politicians get a "high" from ethanol. Vocal, moneyed special interests—the "pushers" of the stuff, if you please—have hooked them on it. What's needed perhaps is a support group we might call "Ethanolics Anonymous" to help weak and wayward politicians mend their ways and get back on the straight and narrow.

Allowing free people to make choices in a free market is the best means by which the relative merits of competing fuels can be impartially judged, rather than artificially dictated by fiat. It's time for federal and state officials to either end this regulatory buffoonery, or at least come clean and admit that ethanol policy has little to do with environmental protection and energy security and everything to do with an addiction to political opportunism and campaign cash. □

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IDEAS ON LIBERTY
NOVEMBER 2001

The Federally Mandated Toilet Still Doesn't Work

by Michael Heberling

Three years ago we moved into our newly built home in Grand Blanc, Michigan. The whole family was excited.

While all new houses have some problems, I was not expecting the toilets to be among them. How could this be? After all, these toilets were brand new. As it turns out, that was precisely the reason they weren't working. You see, I am the not-so-proud owner of three federally mandated environment-friendly, but consumer-unfriendly toilets. The primitive 3.5-gallon toilet, which worked, was outlawed by the Energy Policy and Conservation Act of 1992 in favor of the politically correct 1.6-gallon toilet, which doesn't work.

Pulling the lever on the 1.6-gallon toilet has become an anxious game of chance for all members of the family. Will it work as advertised? Will it require two or more flushes to get the job done? Will it clog up? Or, heaven forbid, will it overflow? Contrary to the assurances of consumer groups, environmentalists, and politicians, these new toilets are still not working as advertised. For the longest time my youngest daughter would not flush the government toilet for fear that it would overflow.

To address this situation, I saw three options:

1. Get a really good, expensive plunger and keep it close by;
2. Proactively double flush; or
3. Visit Ontario (in spite of its socialist tendencies, Canada still sells 3.5-gallon toilets).

I chose option 2. However, this double-flush solution only works so long as everyone understands and plays by the rules. Beware of provincial visitors who still have the 3.5-gallon versions. Unless you train your unsophisticated guests in the proper use of the government-mandated toilets, be prepared for some very embarrassing moments. I was recently awakened from a sound sleep to hear my wife say: "Michael, the toilet is overflowing in the guest bathroom."

What's wrong with this scenario? Why don't I have the right to choose? Isn't this pro-choice America? If I want to buy a gas-guzzling environmentally unfriendly sport utility vehicle (SUV), that is—as of this writing—my choice. I can water my lawn all day and wash my car in the driveway. However, because of this government decree I am not allowed to choose a 3.5-gallon toilet. I am forced to buy a toilet that, in theory, saves 1.9 gallons of water per flush (this assumes no double or triple flushing) and saves me $50 per year, again in theory. For peace of mind, I am willing to forgo the mythical $50 savings. Unfortunately, I don't have a choice.

What's going on here? While the government says it will not dictate what we can or cannot do in the bedroom, the same is not true

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for the bathroom. Here, intrusive laws are permissible. Manufacturers who are caught selling or distributing toilets that work will be fined $100 (per toilet). In addition, new homes, or older homes with remodeled bathrooms, will not be able to pass inspection if any working toilets are found on the premises.

This sounds a lot like Prohibition. Once again the government is denying the public a product that it wants, needs, and enjoys. Law-abiding citizens are becoming international smugglers. Expect to see a modern day Eliot Ness-type figure emerge (note that I did not say hero) to command a convoy of large FBI trucks equipped with battering rams. No warehouse in America will be safe. Based on tips from environmentalists, The Unflushables will swing into action. They will blast through warehouse walls and once inside, The Unflushables will start smashing the illicit 3.5ers with sledgehammers.

Who's the Victim?

If you will recall, the American people eventually prevailed over Prohibition. This turnaround occurred even though the government apparently had the moral high ground. It was only trying to protect the American people from the ills and crimes associated with alcohol. This may be blasphemy, but I see buying, installing, and using a 3.5-gallon toilet as a victimless crime that does not warrant a return to Prohibition. I realize that a certain segment of our population will become apoplectic with this statement. I can hear them now: "The environment is the victim!"

But how serious is this particular environmental problem really? The stated reason for enacting the law was to save water. We are told that the 3.5-gallon toilet accounts for 30 percent of the household water use. This sounds significant. However, the people who throw this figure around to win support for draconian measures conveniently fail to mention that up to 60 percent of total household water use occurs *outside* the house through lawn watering, washing cars, and wading and swimming pools. Thirty percent of the remaining household water is only 12 percent of the total. Twelve percent is not as impressive as 30 percent. If we then include the water used by agriculture, commercial firms, and industry, we find that the household water represents 10 percent of *total* water use. This means that toilets account for slightly more than 1 percent of America's water usage. Again, how serious is this environmental problem really?

There is a second (equally weak) argument put forth to support the politically correct toilets. The Environmental Protection Agency told Congress that America will need to invest $280 billion in the next two decades for the treatment of drinking and waste water. That cost will be a function of how much water is treated each year. True, but won't it be borne by those who use the service? Isn't that the only fair way? If the federal and state governments aren't paying it, why is this a problem?

If the EPA had instead told Congress that America needed to invest $280 billion in the next two decades for petroleum refining, would we be shaking our heads in disgust over the enormousness of the cost to Americans? Not at all, because in this case we understand that those using the product would pay for it. The SUV owners will pay more than the Volkswagen owners. People can certainly save money by buying smaller, fuel-efficient cars. However, many make the conscious economic decision to buy larger cars.

The politically correct toilet law was not a well-chosen piece of legislation. Its environmental and economic benefits appear, at best, marginal. The law has become a source of ridicule and derision, which only serves to undermine any concern about the environment. But who can blame those who scoff at this law? It indeed symbolizes the increasing level of government intrusion into our daily lives. □

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IDEAS ON LIBERTY
NOVEMBER 2001

The *Sustainable*—and Young—Hydrocarbon Energy Age

by Robert L. Bradley, Jr.

As the Bush administration confronts the economy's growing need for affordable and reliable energy, the critics of the hydrocarbon-based energy economy are back to the drawing board. The "soft" energy path of subsidies and mandates for conservation and nonhydro renewable energy—hatched during the 1970s energy crisis and popularized during the eight years of Clinton/Gore—was not supposed to end in price spikes and shortages in the California laboratory. Energy demand has rapidly grown even as the economy has become one-third less energy intensive. Nonhydro renewable energies constitute less than 2 percent of the supply mix after a quarter century of private and public effort. And hydrogen fuel-cell vehicles remain decades away from mass penetration at best. Meanwhile, a plethora of technological advances promise to increase the global market share of oil, natural gas, orimulsion, and coal beyond today's 85 percent and extend the hydrocarbon era well beyond the 21st century.

Central economic planning may be intellectually dead, but planning for "energy sustainability" remains an environmentalist mantra. The theme of Earth Day last year, "New Energy for a New Era," set forth the goals to reduce total energy usage, phase out nuclear power, and substitute renewable energy for fossil fuels.

This prescription is at odds with market and political realities. Electricity generation has grown at twice the rate predicted by the Department of Energy in the last five years because of new uses of electricity in the digital age. Environmentalists, who talk a big game about renewable energy, *oppose* most renewable capacity on close inspection. They have turned against the kingpin of renewable energy, hydropower, in favor of fish migration and returning rivers to their natural state. Environmentalists have blocked wind and geothermal projects in "sensitive" areas—where they are commonly located. Solar farms and some biomass projects have been questioned by environmentalists as too land-intensive for the (limited) energy that is produced. Their professed concern about the role of carbon dioxide (CO_2) emissions on global climate fails to square with the fact that carbon-free hydropower and nuclear power, also vehemently opposed, produced 90 times more electricity in the United States last year than wind and solar combined.

Hydrocarbons are an expanding energy resource, not a depleting one as doomsayers have long alleged. The world's proved reserves of crude oil are 21 times greater today than they were when such record-keeping began over a half century ago. Reserves of orimulsion, a recently commercialized tar-like oil, are greater than the glob-

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al supply of crude oil. World natural-gas reserves are five times greater than they were in the mid-1960s. Coal reserves are four times greater than originally estimated a half-century ago and twice as great as all of the known oil and gas reserves combined on an energy-equivalent basis. Energy economists are still looking for a "depletion signal" nearly two centuries into the hydrocarbon age, increasing interest in the Thomas Gold hypothesis that superabundant hydrocarbons deep in the earth are slowly seeping toward the drill bit. Another explanation is that human ingenuity and financial capital are not depletable but expanding resources, explaining why hydrocarbon supplies are increasing even after consumption increases.

Cheaper Energy

Increasing affordability has resulted from the increasing abundance of hydrocarbons, whether measured in terms of inflation-adjusted prices or work-time pricing (the amount of time it takes the average laborer to purchase a unit of energy). The average laborer today can purchase a tank of gasoline and several days' worth of residential electricity in about two hours of work time. In 1940 the same purchase of 15 gallons of gasoline and 100 kilowatt hours of electricity required most of the workday. To use a more recent example, substantially higher natural-gas prices paid by consumers this year are about the same as the prices consumers paid in the mid-1980s, adjusted for inflation. Gasoline prices are substantially lower than in the same period when adjusted for inflation. Still, consumers have reason to desire and expect lower prices for the record quantities of energy they are now purchasing.

Hydrocarbon energies are rapidly improving in terms of product quality. Risks associated with supply and price can be managed for days, weeks, months, or years on central futures markets and with over-the-counter (company-specific) products. Fuel diversity for its own sake, government oil stockpiles such as the Strategic Petroleum Reserve, and emerging grants under low-income energy assistance programs are unnecessary in the financial-energy age where certainty can be secured with the click of a button. Commercial and industrial firms can optimize their energy usage by outsourcing their energy function to highly specialized energy service companies. Online "click" trading with hundreds of customized energy products has made the energy market more transparent for the entire supply chain and final users. Mega-retailers are entering the market to allow customers to buy their natural gas and electricity competitively rather than from utility monopolists. These quality improvements have all occurred in the last five, ten, or 15 years.

The increasing sustainability of conventional energy applies equally well to water and air pollution associated with hydrocarbon transportation and combustion. Large oil spills in U.S. waters have become rare because of reforms undertaken in the wake of the Exxon *Valdez* accident in 1989. Urban air quality in the United States is one-third better today than in 1970 despite an increase in total energy usage of more than 40 percent. Ozone violation days in Los Angeles have dropped by two-thirds since the early 1980s because of technological advancements, not lifestyle changes. The recent-year smog leader, Houston, has reduced its ozone violation days by one-fourth in the same period, and plans are being completed for the region to implement control measures even stricter than southern California's to totally eliminate ozone episode days by 2007. This would be a great achievement given that the rest of the country benefits from the output of Houston-area refiners and petrochemical plants.

New drilling technologies allow precise extraction from remote locations to minimize the disturbance to ecologically sensitive areas. This is a major argument in favor of drilling in the Arctic National Wildlife Refuge (ANWR) in Alaska and on other public lands. At the other end of the energy chain, new power plants produce more power with less natural gas, oil, or coal, and emit far fewer pollutants than ever before. The "hydrocarbon footprint" is becoming fainter with the march of time in market economies around the world and particularly in the United States.

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Climate Alarmism

The increasing economic and environmental sustainability of hydrocarbon energies has forced hydrocarbon critics to sound a new alarm—climate change from hydrocarbon-based greenhouse gas emissions. Yet there are significant benefits in addition to potential damages from the human influence on climate. Furthermore, societal wealth created from hydrocarbon energy abundance creates the resiliency to cope with weather and climate extremes that occur from any source.

Climate economists are impressed by the ecological and social benefits of a moderately warmer and wetter world, coupled with longer growing seasons and the CO_2 fertilization effect on plants and agriculture. Economists also factor in the scientific evidence that weather extremes are not increasing, and the greenhouse warming is favorably distributed as predominantly higher *minimum* temperatures. A disproportionate amount of the warming is also "dead warming," where higher below-freezing temperatures are occurring. Greenhouse physics, as well as the statistical record, points toward man-made warming occurring in the coldest and driest air masses, predominantly during winter Siberian and Alaskan nights.

The global-warming scare has led two oil majors, BP and Royal Dutch Shell, to trumpet their diversification into renewable energy and solar in particular. Meanwhile, both companies' aggressive hunt for oil around the world and investments in cleaner gasoline are making the petroleum age more sustainable, not less. BP, having dropped its "Beyond Petroleum" moniker, is poised to take the lead in developing ANWR. Shell has offered an alternative scenario where the market share of renewable energies catches up to hydrocarbons and nuclear by mid-century, but reality suggests otherwise. Shell's own highly publicized multiyear global budget for renewable energy—$500 million—is a fraction of its budget to develop oil and gas fields in the Gulf of Mexico alone.

There are real energy problems, but most of these problems stem from acts of government, not acts of the market or of God. The electricity shortage that California has experienced has the same cause as gasoline lines during World War II and the 1970s—price controls. California's "deregulation" effort capped retail electricity rates, while letting wholesale power prices move with market demand. Wholesale prices could only rise with rapidly increasing demand from 24-7 uses of information power and changed supply conditions from a bad hydro year. Retail prices could not clear—hence the political-allocation problem of rolling blackouts—and utility buyers could not pay wholesale suppliers. Rather than deregulate prices to solve the shortage in a rational manner, California authorities expanded government actions on the supply and demand sides in the quest to impose economic order. Ludwig von Mises's writings on the futility of the "middle way" between free markets and planning apply presciently to California.

Energy policy is becoming more focused on expanding energy reserves and infrastructure to keep up with demand growth. Gone is the assumption that supply would be there, despite a variety of government disincentives, until politically favored energy alternatives could emerge. The hyperbole about a post-hydrocarbon "new energy future" is being exposed as little more than a recipe to return to a bygone era of energy scarcity; note the primary energy role of solar, wood, waste, water, and wind in centuries past, the invention of the fuel cell in 1839, and the dominance of the electric car before Henry Ford's internal combustion engine entered mass production after the turn of the last century.

Good News, Bad News

Hydrocarbon energies are at the center of today's consumer-driven technology revolution. Wealthy societies may be able to afford esoteric energy forays in the government sector, but energy consumers around the world desire their political leaders to lessen the hand of government so that energy will be more plentiful and affordable and their lives improved. The good news is that the needed hydrocarbons are abundant and growing cleaner and more "sustainable" over time. The

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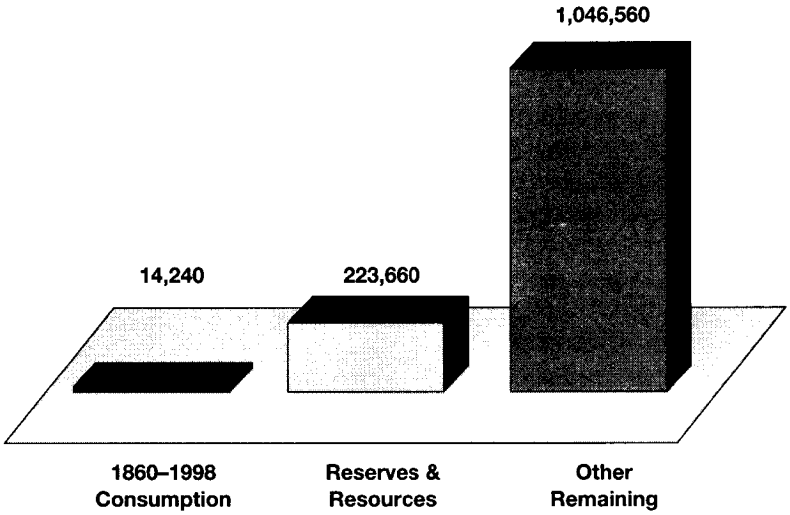
Hydrocarbons: 1% Down and 99% to Go!
***Quadrillion* BTUs**



Source: Intergovernmental Panel on Climate Change, *Climate Change 2001:* Mitigation (Cambridge, UK: Cambridge University Press, 2001), p. 236.

Hydrocarbons—oil, natural gas, orimulsion, and coal—are intensive energy carriers. Despite concern that such supplies are running out, official estimates of remaining supply are bullish. On a total energy equivalent basis, 99 percent of total supply is still left after almost 140 years of consumption. With increasing estimates of remaining hydrocarbons, "1% down, 99% to go" may also be the statistic well into the future.

bad news is that the soft energy mirage of the last two decades succeeded in getting "hard energy" partially off track. With free-market public-policy reform, hydrocarbon energies can overcome artificially imposed constraints and meet rising expectations for an open-ended future.

The threat to "energy sustainability" is not depletion, pollution, global cooling, or global warming. Activist government policies that increase prices and reduce reliability are the real threat for the 1.6 billion people still awaiting modern energy and the other 4.5 billion who are more reliant on energy than ever before. Policymakers should respect energy reality, heed consumer expectations, and let free markets reign with the "master resource." □

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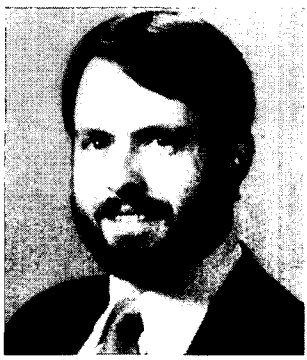

Uncle Sam's False Fuel Economy

A quarter century after the misguided policies of President Jimmy Carter and a Democratic Congress created an "energy crisis," President George W. Bush and a Republican Congress risk wandering down the same foolish path. Worst may be the campaign to lift corporate average fuel economy (CAFE) standards in order to make automobiles more fuel-efficient. Paradoxically, CAFE increases the amount of driving as well as the number of people killed in car accidents.

CAFE was one of a number of arbitrary measures to cut energy use imposed after the OPEC oil embargo. Congress enacted the program in 1975, mandating that the average mileage for automaker fleets rise from 18 to 27.5 mpg in 1985.

The industry complied by building cars that consumers didn't want and selling them below cost in order to continue producing the larger autos that Americans did want. Smaller, luxury automakers simply paid off Uncle Sam: Companies like BMW, Jaguar, Mercedes-Benz, Porsche, and even Volvo have paid about half a billion dollars in fines.

Carmakers successfully lobbied to prevent any CAFE increase and to keep the level for "light trucks," which include SUVs, substantially lower. Now, however, the legislative natives are getting restless, and Congress is moving to raise CAFE.

A Republican backbencher, Representative Lee Terry of Nebraska, has led the counter-productive charge. And the Bush administration, battered by environmentalists and anxious to sell its flawed, subsidy-ridden energy package, seems disinclined to defend the industry.

The most immediate beneficiaries of any CAFE increase would be Japanese and European manufacturers, which offer a smaller, more fuel-efficient product line. *Business Week* said, "Only Toyota Motor Corp. sells full-size SUVs and pick-ups, but sales of smaller SUVs, pickups, and minivans keep it safely below overall CAFE ceilings." Moreover, the Japanese automakers possess future credits for being under CAFE targets in the past, improving their ability to compete in the larger car market.

The theory of course is that it reduces gasoline use. But people's transportation demands reflect a number of factors, including the quality of autos and the price of driving. To the extent that CAFE makes new cars less desirable—reducing their size and engine power—it encourages people to hold on to their older cars longer and shift to SUVs, which are less fuel-efficient.

Moreover, when CAFE "works," it reduces the cost of driving. Which means that it encourages people to drive more.

Environmentalists have long recognized that price matters, which is why many of them support hefty energy taxes. They argue that hiking the levy on gasoline would cause people to choose mass transit, consolidate errands, and carpool. But the more mileage your car gives you per gallon, the less incen-

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tive you have to choose mass transit, consolidate errands, and carpool.

Americans now average twice as many miles driven as before CAFE was imposed. That's not all due to CAFE, of course, but no one knows how much, if any, gasoline has actually been saved.

Robert Crandall of the Brookings Institution says: "CAFE has had much less effect on total fuel consumption than a simple examination of new-car, fuel-economy trends might suggest. Unfortunately, no one has conducted a definitive empirical study of CAFE's effects that would give us a respectable estimate of the fuel saved. As in most environmental issues, this absence of evidence on the effects of policy simply allows proponents to press for even more stringent regulation."

Lethal Standards

CAFE is a particularly bad deal for another reason. It kills people.

There is one clear rule of the road: big cars beat little cars. Any given auto can have less or more safety devices. But more metal around a driver or passenger almost always means a better chance of surviving an accident.

That smaller cars do worse in accidents is beyond dispute. In 1989 Crandall and John Graham of Harvard University reported a 23 percent average weight reduction in automobiles due to CAFE, warning that "the negative relationship between weight and occupant fatality risk is one of the most secure findings in the safety literature."

People intuitively understand this rule. Clotaire Rapaille, who has studied the characteristics of SUV owners for the auto industry, says: "People tell me, 'If someone bumps into me, I kill them, they don't kill me.'"

Unfortunately, CAFE runs against this rule. Although there are a number of ways to increase gas mileage, the easiest and cheapest, and thus most common, method is to make cars smaller with less protective metal shells. Half of the dramatic downsizing over the last quarter century is due to CAFE.

Graham and Crandall estimated the annual death toll to run between 2,200 and 3,900. In the mid-1990s the Competitive Enterprise Institute figured that between 2,700 and 4,700 people died each year because of CAFE, upwards of one-fifth of America's auto total casualties.

In 1999 *USA Today* analyzed federal crash data and concluded that 46,000 people had died because of the shift to smaller, lighter autos. This research is backed by a recent study in the *American Journal of Public Health* by Leonard Evans, on staff at the Vehicle Analysis and Dynamics Laboratory at the General Motors Research and Development Center in Warren, Michigan.

Evans says, "Replacing any individual car with a heavier one will in the vast majority of cases reduce total population risk." The reverse is also true: "replacing all the cars in a population with cars lighter by a fixed amount or percentage will necessarily increase population risk."

Thus drivers would be in greater danger even if all cars got smaller. Especially since there will always be SUVs and trucks of all sorts, which do significantly greater damage to smaller autos.

Federal regulators have attempted to avoid the truth, but in 1992 a federal appeals court dismissed arguments by the National Highway Traffic Safety Administration defending CAFE's safety record. The agency's contentions were based on "bureaucratic mumbo-jumbo," "fudged analysis," and "statistical legerdemain," said the judges.

Evans offered his findings without any policy recommendation. But he noted that "When policies are expected to influence the mix of cars, however, effects on safety should not be ignored."

Which means that CAFE should be repealed, not strengthened. As Sam Kazman of the Competitive Enterprise Institute said: "The notion that we can mandate more stringent CAFE standards without increasing traffic deaths is simply preposterous."

America does not need a new government energy policy, especially one that needlessly kills a dozen people a day. □

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IDEAS ON LIBERTY
NOVEMBER 2001

Politicizing the Housewife

by Wendy McElroy

What it means to be a housewife is being revised ideologically in order to impugn the choice some mothers make to stay at home.

The revisionism has been fueled by the recent case of Andrea Yates, the Texas mother who drowned her five young children in a bathtub. The murders were allegedly committed because Yates suffered from postpartum depression aggravated by being a stay-at-home mom. Cheryl L. Meyer, coauthor of the forthcoming book *Mothers Who Kill Their Children* and an associate professor of psychology at Wright State University, expressed a new feminist line on stay-at-home moms in an article at Women's Enews (June 27), a popular feminist Web site. Meyer wrote, "The reality is that the mother who kills her child is every mother, any mother." In positing Yates as an Every Woman, Meyer continues, "Most mothers just seem to understand how a woman could kill her child. When we target certain cases and try to ascertain how this particular mother could have killed her child, we mask the more important question, why don't more mothers do this?"

Marcia Wilkie, coauthor of Marie Osmond's autobiographical account of postpartum depression, intimately linked America's sweetheart to the murderous Yates in a *Newsweek* article (July 2). In a column in the same issue, "Playing God on No Sleep," the Pulitzer–prize-winning Anna Quindlen argued that every mother secretly identified with killing her own children. She described the typical stay-at-home housewife this way: "She's tired, she's hot and she's been up all night throwing sheets into the washer because the smaller of her two boys has projectile vomiting so severe it looks like a special effect from 'The Exorcist.' Oh, and she's nauseated, too, because since she already has two kids under the age of 5 it made perfect sense to have another, and she's four months pregnant." With housework added to the unsavory mix, this Every Woman lives on the verge of snapping and committing infanticide.

A myth created by PC feminism is dying and a new one is being created to replace it. The dying myth is that women do not commit acts of domestic violence: men do.

It has been well documented that wives assault husbands at approximately the same rate as husbands assault wives. The statistics regarding fatal child abuse are even more alarming. A Bureau of Justice report titled "Murder in Families" (NCJ 143498) surveyed murder cases tried in 1988 and discovered that 55 percent of defendants charged with killing their own children were women. "The Third National Incidence Study of Child Abuse and Neglect" (NIS-3, 1996) from the Department of Health and Human Services reported that mothers perpetrate 78 percent of fatal child abuse. Even granting that women are usually the primary caregivers and thus

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have much more opportunity and motive to snap, these figures are alarmingly high. They are so high and the subject of so much attention that it is no longer credible to claim that women are nonviolent in the home.

To preserve the image of women as victims of oppressive male society, however, PC feminists find it necessary to explain how the murder of a child by his or her mother is still the fault of men. The first step is to remove responsibility from the mother by blaming her acts on postpartum depression or some other "insanity" with which most women can identify. The second step is to castigate the traditional family with its stay-at-home mom as a breeding ground of pathology for women. Since PC feminists already decry the traditional family as a bastion of white male culture and a barrier to women's actualizing their potential, the next leap of logic is easy. Murdering moms are driven to violence by the men who impregnate them and trap them in the psychologically devastating role of housewife. Thus many voices in the media blame Andrea Yates's husband—a man whom no one has suggested was ever violent—even while they express sympathy for Andrea herself. They blame society for not recognizing Andrea's plight.

Friedan Called into Question

Interestingly, the current debate about housewifery comes at the same time as the validity of the book that sparked the original debate is being severely questioned. In 1963 Betty Friedan's book *The Feminine Mystique,* spoke of "the problem that has no name." Stated simply, domesticity denied housewives their humanity and potential, making them suffer both physically and mentally. Friedan described the typical '50s family as a "comfortable concentration camp." Like camp inmates, suburban housewives had adjusted psychologically and become "dependent, passive, childlike" and lived at a "lower human level."

Selling millions of copies, *The Feminine Mystique* became a powerful force in shaping American culture and has been credited with inspiring Second Wave feminism. Certainly it led to Friedan's co-founding of the National Organization for Women (1966). The book has taken its rightful place as an icon of the Cultural Revolution of the 1960s and '70s during which women flooded out of the home into the university and the workplace. As women continued to read Friedan's book, the idea of housewifery as a pathology was cemented to feminism.

Recent works have thoroughly discredited Friedan's arguments, the power of which was derived from claims of personal experience and the authorities she cited to support her claims. In his book *Betty Friedan and the Making of the Feminine Mystique* (1998), Daniel Horowitz explored Friedan's background and debunked the myth that she ever represented the typical suburban housewife as she has persistently claimed. Friedan had been a staunch political activist on the communist left for decades before her first book appeared. Horowitz's analysis is all the more damning because as a leftist he is sympathetic to her politics. He argues that she hid her past because she was afraid of being persecuted during the McCarthy witch hunts. Whatever Friedan's motives may have been, they make *The Feminine Mystique* appear disingenuous.

In a 1973 article in the *New York Times Magazine* titled "Up From the Kitchen Floor," Friedan claimed that when she wrote her book in the early '60s, "I wasn't even conscious of the woman problem." Yet in 1951 Betty Goldstein (Friedan's maiden name) wrote an article titled "UE [the United Electrical, Radio and Machine Workers of America] Drive on Wage, Job Discrimination Wins Cheers from Women Members" (*UE News*, April 16) in which she reported on a labor meeting. Goldstein described the women as "fighters" who "refuse any longer to be paid or treated as some inferior species by their bosses, or by any male workers who have swallowed the bosses' thinking."

The fact that readers of Friedan's book identified with her as a sister-housewife who had naïvely bought into the domesticity myth was one reason for *The Feminist Mystique*'s huge success. The same readership would never have identified with the real Friedan:

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a left-wing labor journalist; a member of Marxist discussion groups; author of the union pamphlet "UE Fights for Women Workers" (June 1952), which critiqued wage discrimination based on sex; a rent striker; and a career woman who hired a "really good mother-substitute—a housekeeper-nurse" (*Charm,* April 1955).

In an article titled "Rethinking Betty Friedan and The Feminine Mystique: Labor Union Radicalism and Feminism in Cold War America" (*American Quarterly,* March 1996), Horowitz argued that an examination of Friedan's communist past and her subsequent shift toward respectability illustrates a significant turn within the ideology of the left in the 1950s. It is a microcosm of how the Old Left has evolved into the politically correct New Left. The ideology expanded from economic analysis, which was based on Marxism, to include "humanistic psychology" and a focus on "the effect of consumption on the middle class." In his analysis, contemporary feminism is merely a subset of the New Left.

In addition to questions about Friedan's credentials as a housewife, grave doubt has been cast both on her interpretation of the experts on which *The Feminine Mystique* was based and the "facts" presented by the experts themselves. In the *Atlantic Monthly* (September 1999), Alan Wolfe, director of the Center for Religion and American Public Life at Boston College, raised the question of whether a "book can arrive at the larger truths if the bricks on which it is built won't stand up to time."

This question is particularly relevant to *The Feminine Mystique*, which relies heavily on appeals to authority, from psychologists such as Freud and Abraham Maslow to the anthropologist Margaret Mead and the sex researcher Alfred Kinsey. In using these experts, Friedan dips in and out of their work, citing the evidence that supports her position and ignoring whatever contradicts it. Even the supporting evidence no longer provides a real prop. In the years following publication of Friedan's book, much of the selectively cited research has been discredited. For example, Derek Freeman's book *The Fateful Hoaxing of Margaret Mead: A Historical Analysis of Her Samoan Research* (1999) effectively countered the claims made in Mead's work *Coming of Age in Samoa*—a book highly touted in *The Feminine Mystique*. The credibility of Kinsey has fared even worse as rampant bias in his methodology has been revealed.

Wolfe concludes, "To make her case that women required freedom, Friedan felt it necessary to exaggerate the degree to which they lived in slavery." Unfortunately for her argument, the "treatment of a serious social problem which relies on the authority of experts appears far less persuasive if the experts turn out to be telling just-so stories." Without the backing of solid statistics and research, Friedan's work does nothing more than offer anecdotal evidence of the unhappiness of some housewives and then proceeds to define the reality of most on that basis.

Friedan's credibility has fallen on hard times. Even the admiring biographer Judith Hennessee is strangely critical of her subject in the book *Betty Friedan: Her Life* (1999). In the introduction she admits being disappointed in Friedan the person as opposed to Friedan the thinker. Hennessee speaks of a feminist who was often "rude and nasty" and "who . . . did not even like women"; of a wife who inflicted and received so much violence in her marriage that her three children required therapy "to distance themselves from the emotional fallout."

Despite the criticism, however, it is undeniably true that *The Feminine Mystique* spoke to many women whose lives were changed as a result of reading the book. For them, being a housewife was a negation of their potential as human beings, and they discovered the courage to reach out to make a different choice. But voices within feminism were not content to view domesticity simply as a choice that appealed to some women and not to others. So a new political mythology of housewifery was born.

The Myth of the Housewife

In the '60s the mainstream of feminism was "liberal" and contained a strong bias toward reforming marriage to make it more equal. For example, men were exhorted to do more

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of the housework and to share greater responsibility for child rearing. In short, *The Feminist Mystique* did not call for the abolition of marriage, merely for a transformation. Years later, when politically correct gender feminism built on Friedan's work to argue for the abolition of marriage, she objected. In her book *The Second Stage* (1981) she explained that gender feminists were misinterpreting her meaning. She pleaded with them to move away from antifamily rhetoric and back to a dialogue with men about how to improve the institution of marriage.

What is the substance of the antifamily rhetoric to which Friedan objected?

The gender feminist assault on the traditional family, including stay-at-home moms, can be dated from Kate Millett's influential book *Sexual Politics* (1970). Millett's views were extreme and her presentation radical. For example, in dealing with male-female relations ("sexual politics"), Millett dwelt almost obsessively on pornography and sadomasochistic literature. In attacking sexual politics she assaulted the entire structure of power in society—that is, the white male culture known as patriarchy. Marriage was posited as *the* agency that maintained the traditional pattern of man's power over woman.

Millett's work was followed up and fleshed out by other extreme voices. Consider a small sampling of some books that quickly ensued: Ellen Peck's *The Baby Trap* (1971) argued that babies block liberation; Kathrin Perutz's *Marriage is Hell* (1972) defined heterosexual sex as a political power struggle; Jill Johnston's *Lesbian Nation* (1973) called heterosexual females "traitors." The popular anthology *Sisterhood is Powerful* (1970) contained 74 essays; only one of them had anything to do with motherhood.

A new theory of the housewife was evolving in which the role had the political status of chattel. To gender feminists, marriage and the family became inextricably bound up with private property, the class structure, and the mode of production. In other words, the family was an aspect of capitalism.

The seeds of their analysis are to be found in Friedrich Engels, coauthor of the *Communist Manifesto* and an author much quoted by Millett. In his book *The Origin of the Family, Private Property, and the State* (1884) Engels argued that the oppression of women sprang from the nuclear family, but he did not believe that this oppression had occurred throughout history. It had emerged with the dawn of capitalism before which, he claimed, the work of men and of women was valued equally. In the nineteenth century, however, industrialization supposedly brought a separation between home and productive work and caused a transfer of men's labor from the home or farm to the factories. Women remained at the hearth. Thus men came to dominate the public realm and women were confined to the private one. Although some women ventured into the factories as well, they received lower pay and their independence was illusory.

With the emergence of wide-scale capitalism, women were said to be relegated to the roles of breeding, maintaining men, and buying consumer goods. Mothers provided the next and appropriately indoctrinated generation of laborers for the capitalists; housewives maintained the male workforce by cleaning and cooking; housekeepers enriched the capitalist structure by consuming the products it produced.

As the early gender feminists Nicole Cox and Silvia Federici explained in their pamphlet "Counter-Planning from the Kitchen: Wages for Housework," "Housework . . . is servicing the wage earner physically, emotionally, sexually, getting him ready to work day after day for the wage. It is taking care of our children . . . and ensuring that they too perform in ways expected of them under capitalism."

To gender feminists housework is a direct expression of man's oppression of women and capitalism's exploitation. As such, housework is surplus labor. To restate the feminist concept: Capitalism is a process by which those who own the means of production pay wages to workers who produce goods worth more than the wages paid. The worth in excess of the wages paid is called the "surplus value of labor" and it is absorbed by capitalists as unearned profit. The surplus value of housework is that it enables men's labor. Men's labor is the unearned profit that capitalism absorbs.

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Thrown into this economic condemnation of housework and the traditional family as bastions of capitalism are other accusations. For example, housewives are said to be kept in an isolation that encourages domestic violence.

From such analysis sprang the popular feminist slogan "The personal is political." Susan Moller Okin explained the origins in her book *Justice, Gender, and the Family* (1991). Okin wrote, "The earliest claims that the personal is political came from those gender feminists of the 1960s and 1970s who argued that, since the family was at the root of women's oppression, it must be 'smashed.'" She disputes the assumption that family arrangements should be treated as personal, private matters rather than as political ones: the state can and should enter the domestic scene. To those who object, Okin replies that the state already intervenes by establishing the social and political background in which the family functions. Expanding the intervention by, for example, requiring payment for housework is a matter of degree, not of kind.

Whether or not Friedan is comfortable with the manner in which her theories have been spun out, this is the logical conclusion to her calling the suburban household "a concentration camp" for women.

And so the new myth appears: stay-at-home moms are oppressed women who are so psychologically damaged by being trapped that they are likely to snap under the pressure. As isolated victims of male society, it is understandable if they experience psychotic episodes in which they kill their own children. Indeed, in doing so, they are expressing their victimhood, which has gone unrecognized by society at large.

A New/Old View of Housewifery

Fortunately, voices of sanity remain. One of them belongs to Mimi Gladstein who speaks out in the individualist feminist anthology *Woman and Liberty* (Ivan R. Dee, spring 2002). Individualist feminism views staying at home to raise a family as a choice every bit as valid as entering the work force. Gladstein's essay begins, "We don't hire housewives," because that is the response she received when she asked about joining the faculty of the University of Texas at El Paso, where she is now associate dean of liberal arts. Gladstein refused to be devalued as a human being because she was a housewife. That "job"—no less than teaching university English—expressed her worth and her competence. Even more, being a housewife was the training ground where she learned skills such as setting priorities and budgeting time. Gladstein writes, "All I really needed to know about chairing a department, I learned by being a Jewish Mother."

Gladstein describes how being a suburban housewife trained her to handle taking over as executive director of her university's Diamond Jubilee celebration. She writes, "That job allowed me to use my housewifery skills to create and manage events as diverse as football half-times, city-wide street festivals, physics fairs, student retention programs, Vietnam Memorial dedications, city and university planning commissions and a year-long program of national and internally renowned speakers." She learned the necessary skills while juggling her children's schedules, planning the family budget, and being a hostess at her husband's business events.

Choice is the key to individualist feminism and to whether or not housework is damaging to women. To those women who choose to stay home and raise a family, it can be not only the most fulfilling use of their time, but it can also teach management skills that translate well into the workplace afterwards. In approaching marriage and the family, the feminist slogan should be: "the personal is personal." Individuals should choose, and the state should have no role. □

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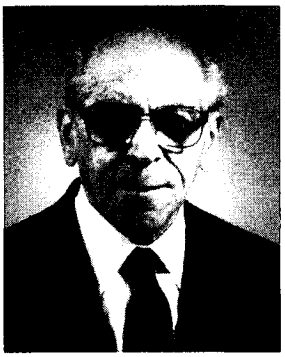

Mental Illness: Psychiatry's Phlogiston

"The madman is not the man who has lost his reason. The madman is the man who has lost everything except his reason."
—GILBERT K. CHESTERTON

In physics the same laws are used to explain why airplanes fly and why they crash. In medicine the same principles are used to explain why people live and why they die. In psychiatry, however, one set of rules is used to explain sane behavior and another set of rules is used to explain insane behavior: sane behavior is attributed to reasons (choices), insane behavior to causes (diseases).

God metes out Divine Justice without distinguishing between sane and insane persons. It is hubris to pretend that we know better.

Mental illness is to psychiatry as phlogiston was to chemistry. Establishing chemistry as the scientific study and explanation of matter depended on the investigators' willingness to recognize and acknowledge the nonexistence of phlogiston. Similarly, establishing psychiatry as the scientific study and explanation of human behavior depends on psychiatrists' willingness to recognize and acknowledge the nonexistence of mental illness.

Benjamin Rush (1745–1813) was an American patriot and a signer of the Declaration of Independence who served as physician general of the Continental Army and as professor of physic and dean of the University of Pennsylvania medical school. In 1774 he declared: "Perhaps hereafter it may be as much the business of a physician as it is now of a divine to reclaim mankind from vice." In that act of medicalization lies the root error of psychiatry.

To distinguish himself from the doctor of divinity, the doctor of medicine could not simply claim that he was protecting people from sin. Badness remained, after all, a moral concept. As medical scientist, the physician had to claim that badness was madness, that his object of study was not the immaterial soul or "will," but a material object, a diseased body. However, Rush did not discover that certain behaviors are diseases; he decreed that they are: "Lying is a corporeal disease. . . . Suicide is madness. . . . Chagrin, shame, fear, terror, anger, unfit[ness] for legal acts, are transient madness." Today some of these and many other unwanted human behaviors are widely accepted as real diseases—"chemical imbalances in the brain"—their existence ostensibly supported by scientific discoveries in neuroscience.

Modern natural science rests on laws uninfluenced by human desire or motivation. We do not have one set of medical theories to explain normal bodily functions and another set to explain abnormal bodily functions. In psychiatry, the situation is exactly the reverse. We have one set of principles to explain the "rational" behavior of the mentally healthy

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person and another set to explain the "irrational" behavior of the mentally ill person. The former is viewed as an active moral agent; the latter is viewed as a passive body or object—subject to the effects of injurious biological, chemical, or physical forces that create diseases (of the brain), manifested for example by an irresistible impulse to kill.

"The epileptic neurosis," wrote Sir Henry Maudsley (1835–1918), the founder of modern British psychiatry, "is apt to burst out into a convulsive explosion of violence. . . . To hold an insane person responsible for not controlling an insane impulse . . . is in some cases just as false . . . as it would be to hold a man convulsed by strychnia responsible for not stopping the convulsions." It is a false analogy. Killing is a coordinated act. Convulsion is an uncoordinated contraction of muscles, an event.

We are proud of our unending quest to abolish prejudiced beliefs about the differences between the human natures of different genders and races. At the same time, we are even prouder that we have created a set of psychiatric beliefs about the differences between the neuroanatomical and neurophysiological natures of the mentally healthy and the mentally ill. Oxidation, a real process, explains combustion better than does phlogiston, a nonexistent, imaginary substance. Attributing all human actions to choice, the basic building block of our social existence, explains human behavior better than attributing certain (disapproved) actions to mental illness, a nonexistent, imaginary disease. Regardless of the condition of an "irrationally" acting person's brain, he remains a moral agent who has reasons for his actions: like all of us, he chooses or wills what he does. People with brain diseases—amyotrophic lateral sclerosis, multiple sclerosis, Parkinsonism, glioblastoma—are persons whose actions continue to be governed by their desires or motives. The illness limits their freedom of action but not their status as moral agents.

Answering Objections

According to psychiatric theory, certain actions by certain people ought to be attributed to material causes, not moral reasons. When and why do we seek a causal explanation for personal conduct? When we consider the actor's behavior unreasonable and do not want to blame him for it. We then look for an excuse masquerading as an explanation, rather than simply an explanation that neither exonerates nor incriminates. Holding a person responsible for his act is not the same as blaming or praising him for it: it means only that we regard him as a moral agent.

It is a mistake to believe that offering an excuse-explanation for an act is tantamount to showing that the actor has no reasons for his action. Offering an excuse for doing X—"God's voice commanded me"—is not the same as not having reasons for doing X. To the contrary: what we have shown is not that the actor has no reasons, but that his reasons are wrongheaded—"deluded," "mad," "insane." We conclude that his actions are caused by his being deluded, mad, insane. But we have not proven anything of the sort; we have postulated it.

The "mental patient" who attributes his misdeed to "voices" is not a victim, a robot responding to an irresistible impulse; he is a victimizer, an agent rationalizing his action by attributing it to an irresistible authority. The analogy between a person who "hears voices" and an object, say a computer responding to programmed information, is false. The mental patient responding to the commands of "voices" resembles the person responding to the commands of respected authorities, exemplified by the "suicide-bomber" who martyrs himself for a cause blessed by God. Both persons are moral agents, albeit both portray themselves as slave-like objects, executing the will of an Other, often identified as God or the devil.

Such representations are dramatic metaphors that actor and audience alike may or may not interpret as literal truths. It is not an accident that the "voices" a schizophrenic "hears" never command him to be especially kind to his wife. That is because being kind to one's wife is not the sort of behavior to which he, or we, want to assign a causal—psychiatric—explanation. There is method in madness. □

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NOVEMBER 2001

Ten Years After the Bet: The More Things Change. . .

by Michael D. Mallinger

The late Julian Simon's victory in his famous bet with Stanford biologist Paul Ehrlich was a defining moment in the free-market movement's victory over Malthusianism. In 1980 Simon challenged Ehrlich to choose five commodities that would become more expensive over the next ten years. Ehrlich had long expected the prices of resources to rise because of population growth. Ehrlich chose chromium, copper, nickel, tin, and tungsten. By 1990 the price of each had fallen from its 1980 level. As a result, Ehrlich paid Simon $576.07 for the aggregate drop in price for all five metals.

When Simon emerged the victor, many individuals assumed the Malthusians would take a step back and revise their rhetoric on the effects of population growth. However, in the ten years since, very little about the debate over population and natural resources has changed. In many ways the contrasts between Ehrlich's and Simon's approaches to writing about population have become even more pronounced. The failure of the mainstream press to address Ehrlich's tendency to attack the credibility of economists and scientists who question him has been the most surprising aspect of the whole dispute.

Some journalists liken the population debate to an "intellectual barfight." In many respects, this is true. Simon and Ehrlich were certainly not members of a mutual-admiration society. However, in the course of defending oneself from constant attacks from every environmentalist organization on the planet, it is only natural that scholars like Simon occasionally become exasperated with the media and respond to certain accusations in kind. What is remarkable, though, is that despite the incessant assaults on his moral character, Simon managed to maintain such a positive outlook throughout the ordeal and continued emphasizing the results of scientific investigation during the 1990s, results which proved his point.

Ehrlich's writings, however, have focused on deriding environmental research and policy recommendations made by scientists. As one would expect, he has had many harsh words for scientists who refuse to toe his line. For example, in *The Betrayal of Science and Reason* (Island Press, 1996) he asserts that most scientists who question the validity of the environmentalist agenda do not publish their work in peer-reviewed journals or test and re-test their ideas. Although he concedes that many contrarian scientists do perform the research necessary to back up their claims, he attacks all scientists who receive consulting fees from industry for blurring the line between objective and subjective reporting of their results. Specifically, he expresses extreme disgust that "in some cases, [their] messages simply confuse the issues; in others, they offer a seemingly credible (though generally unfounded) rationale for relaxing or

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eliminating environmental regulations or forestalling development of new policies to address global problems."

Ehrlich defends scientists who are supported and funded by environmental activists on the grounds that they have no financial interest in seeing their policies enacted. He claims that scientists who perform this research are dependent on peer-reviewed government grants and private foundations. However, he declines to address Bruce Yandle's theory of "Bootleggers and Baptists," which explains that many corporations lobby for stricter environmental regulations to gain a competitive advantage over their rivals. He also chooses to ignore the research of public-choice economists on the problems encountered by congressional committees when attempting to monitor their grant recipients. In effect, he asserts that only his sympathizers in the scientific community are qualified to judge the work of other environmental scientists. With citizens' concern growing over how decisions are made in Washington, this view is extraordinarily narrow-minded.

Accentuated the Positive

In contrast, Simon, in the last years of his life, emphasized the positive trends in living standards and environmental quality. In the posthumous *It's Getting Better All the Time* (Cato Institute, 2000, coauthored with Stephen Moore of the Club for Growth) he gives specific examples from published literature—including many documents from federal agencies—to show why the writings of environmental optimists are more accurate than people like Ehrlich would have us believe. In particular, Simon discussed how food prices have fallen, the middle class has expanded, our air has gotten cleaner, and many natural resources have actually become more abundant over the last hundred years. Although he attacked Ehrlich for having such a dismal view of the state of humanity, it is notable that he did not accuse any scientist of having a political agenda or financial stake in the debate.

In addition, Simon explained why so many scientists, especially biologists, have a tendency to sympathize with the population-control agenda. In another posthumous work, *Hoodwinking the Nation* (Transaction, 1999), he discussed why specific characteristics of biological research can lead people to make incorrect assertions about the effects of population growth. In particular, he highlighted the fact that many biologists, including Garrett Hardin of the University of California at Santa Barbara, steadfastly refuse to accept that animal and human adaptation techniques are fundamentally different. He pointed out that even Malthus came to accept that when man is "impelled to the increase of his species by an equally powerful instinct, reason interrupts his career, and asks him whether he may not bring beings into the world, for whom he cannot provide the means of support." Therefore, Simon rejected the biologists' use of animal-ecology experiments to simulate human population growth. However, at no point did he attack the American Association for the Advancement of Science for supporting the research of scholars who believe that unchecked population growth will be catastrophic. He merely questioned their logic.

Ehrlich has had harsh words for members of the press. He demands that they refuse to give scientists skeptical of the environmentalist agenda equal time to respond to the activists because the skeptics represent a minority view. In fact, he believes that the press has a "right"-leaning bias against environmentalists. Like most other claims about vast media conspiracies, those statements border on the absurd.

Simon also expressed frustration with the media's coverage of environmental issues. *Hoodwinking the Nation* gives examples of how unscrupulous scholars manipulate statistics to deceive reporters who lack the training to recognize biases in data samples. He also discusses what he calls the "intellectual-cognitive" causes of error that lead many reporters to assume that environmentalists are usually correct. These include what economists call "the zero-sum mentality"—the assumption that the amount of wealth in the world is finite and that exhaustion of resources is inevitable—a lack of understanding about how economic growth occurs, and

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the belief that even if the environmentalists are wrong scientifically, they should be given the benefit of the doubt because they lead people to be better stewards of the environment. Because their understanding of economic principles is limited, many journalists do not understand how environmental regulation can cause more harm than good.

Blames Economists

Ehrlich largely blames economists for the public's ignorance of his brand of biology. He has blasted graduate students in economics for not considering biology or ecology to be important to their development as economists. In *The Stork and the Plow* (G.P. Putnam's Sons, 1995) he attacks economists for labeling negative aspects of behavior "externalities" and excluding them from cost-benefit analyses. In a survey of leading environmentalist scholars in the January/February 2000 issue of the Sierra Club's magazine, *Sierra,* he stated that the environmentalist revolution must be led by social scientists. "At the center stage," he said, "will be the economists, some of whom are beginning to grasp both the depth of the crisis facing humanity and the crucial role that their discipline must play in solving it."

What Ehrlich declines to mention is that economists have long considered environmental issues important. Most college economics programs—including those at schools with free-market leanings—offer courses in environmental economics. Some schools even offer environmental economics as a separate degree program. Prominent economists such as Tom Titenberg have written books on how to perform cost-benefit analysis on environmental issues.

Contrary to Ehrlich, economists' refusal to adopt uncritically the environmentalist agenda should be viewed as evidence that they take a sensible view of the contributions of biologists and ecologists to economic thinking. In contrast, biologists such as Ehrlich could gain new insight into key aspects of human behavior by studying economics more closely. As Nobel Laureate James Buchanan wrote in *What Should Economists Do?* (Liberty Fund, 1979): "The physical scientist can, I think, learn much from the economist. Essentially, he can learn humility as he appreciates the limitations of science and the scientific method in application to the extraordinarily complex problems of human relationships. To the extent that he can learn that, by comparison, his own problems are indeed elementary; despite his great achievements, he becomes both a better scientist and a better citizen."

Both Ehrlich's and Simon's academic work offer their thoughts on the economic approach to human behavior. Ehrlich's most recent book *Human Natures* (Island Press, 2000) explains how biological and cultural evolution interact to influence people's actions. He discusses F. A. Hayek's contributions in these areas. Curiously, he claims that Hayek supported "planning . . . as the creation of a strong system of laws to provide a level (and relatively monopoly-free) playing field on which competition would be acted out and a system of controls to protect the public health, provide personal security, preserve ecosystem services, and maintain an adequate social safety net." He asserts that Hayek understood that the increasing size and impact of human civilization would be harmful for people everywhere.

Simon addressed the environmentalists' distortion of Hayek's views in his latest posthumous book, *The Great Breakthrough and Its Cause* (University of Michigan Press, 2000). Simon pointed out that as part of his economic logic in *The Constitution of Liberty* (1960), Hayek had explained how people increase the availability of natural resources. In addition, Simon discussed how Hayek "suggests that . . . [legal] institutions, as well as the rest of the rich tapestry of cultural patterns, developed by a process of cultural selection wherein communities that grow in numbers are more likely to have their institutions be dominant in the wider world than are groups that do not increase in population." In other words, by enabling their populations to increase, civilizations are able to improve their prospects for survival in the long run. Thus, he turned Ehrlich's argument that Hayek sympathized with some elements of

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the population-control agenda on its head.

The Precautionary Principle

The intellectual debate on Hayek's view of cultural institutions has important implications for the political debate about the precautionary principle. The precautionary principle is quickly becoming the new approach for environmental groups that wish to prevent technological innovations before they occur. Although the sentiment behind the principle has existed for a long time, Robert Goodin and David Pearce first formalized it in 1980. They stated that as a matter of principle if the use of a new technology entails a catastrophic risk, the risk should be removed before the technology is permitted.

In his book *Rethinking Risk and the Precautionary Principle* (Butterworth Heinemann, 2000), Julian Morris of the Institute of Economic Affairs points out that two different forms of this principle are emerging in the scientific debate. The weak form puts the burden on regulators to determine the potential environmental harms from a new product and to regulate in anticipation of these harms. Morris writes that governments and international bureaucrats favor this approach because it expands their authority and enables them to cut deals with industries rather than being required to shut them down.

The strong form of the principle puts the burden on the user of an innovation to prove it will have no impact on the environment. Morris points out this approach is favored by environmental and self-styled consumer-protection groups because it enables them to sue any corporation that—in their view—fails to prove that its technology is safe.

Although the precautionary principle has only recently begun to be incorporated into international environmental agreements, it is a legal trump card that environmentalists can use to accomplish much of their agenda by bypassing public opinion. Whether in its strong or weak form, it introduces great uncertainty into areas such as contract law by enabling bureaucrats or activists to stop or delay new innovations in every sector of an economy. As Morris explains in his book, "Science has not yet, and is unlikely in the future, to provide a full-fledged deterministic theory of the universe from which all particular events can be predicted. In other words, there will always be scientific uncertainty, both with regard to environmental effects and with regard to all other matters, especially concerning the future."

Environmentalists have invested tremendous resources lobbying for the precautionary principle as a way to meet Ehrlich-style demands for directed evolution in social attitudes and political institutions. If they convince people that every potential effect of a new activity must be studied before allowing it, then meeting the goals that Al Gore outlined in his "Global Marshall Plan for the Earth"—including his demand to stabilize world population—does not seem so unrealistic. If Simon were alive today, he would surely develop new insights into how the precautionary principle will eventually be expanded to examine—and possibly prevent—the environmental effects of all human phenomena—including population growth.

If there is one thing free-market scholars should learn from the past decade, it is that the environmentalist case for population control is a static philosophy. To defeat it they must demonstrate once and for all that population growth does not cause poverty, famine, and resource depletion when people are allowed to be creative. If the free-market side wins the public debate, Ehrlich and his fellow alarmists will not be able to cry wolf again. Julian Simon did an outstanding job of launching the campaign against the Malthusian trap. Finishing what he started would strike an important blow for freedom everywhere. □

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IDEAS ON LIBERTY
NOVEMBER 2001

The Trouble with Teacher Training

by George C. Leef

This is an article about an absurd state of affairs in the field of education, but I'd like to begin with a little thought experiment having nothing directly to do with education.

Imagine two countries—Freedonia and Ruloveria—whose inhabitants like music. However, the two follow entirely different methods of training the musicians who play in their orchestras.

In Freedonia when an orchestra needs a new member, the conductor holds an audition to see which of the several musicians who have applied is the best performer. The ability to play the violin, oboe, trumpet, or whatever is the determining factor. The conductor is hardly interested in how or where the individual learned to play. He also is aware that if he chooses poorly, the quality of his concerts will suffer and he may earn less money or even lose his position. The Freedonian system is not written in law. In fact, it isn't written at all; it's just the way things have been done for generations.

In Ruloveria the government has stepped in to regulate the training of musicians. To combat the previous "anarchy" in musical training, laws were enacted many years ago to ensure that all would-be musicians would have "appropriate and professional" training. Any individual wishing to become a musician must attend a government-regulated training school, and conductors may not hire anyone for an orchestral position who has not earned his musician's certificate, unless no certified musicians apply.

Students in the music schools devote most of their time to learning the theory of musicianship as it is conceived by the professors there. They take courses with such titles as, "Interpersonal Cooperation and Conflict in Ensembles" and "Oppression and Equity in Concert Programming." The students seldom actually *play* any instrument; music professors in Ruloveria long ago stopped believing that it was important for musicians to learn how to play. "A well-trained musician can learn the mere performance aspects later," declared the influential Professor Lazarus Tinnatus. "We can see, even if the uninformed public cannot, that unless we have musicians who have been given the right outlook on the role of music in society, our social wounds will continue to fester."

What would you expect to be the consequences of the two vastly different regimes for the training of musicians?

Concerts in Freedonia are usually well attended, and the patrons come away whistling tunes from favorite compositions. Although there is no official policy to guide the training of musicians, orchestras and other musical groups never have trouble finding talented performers. Music lovers are satisfied.

Concerts in Ruloveria, in contrast, no longer attract many willing customers because most of the musicians are incompetent. The government has taken to conscript-

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ing people to make up an audience. No one is ever heard whistling after a concert, since the traditional pieces (such as the works of Bach, Mozart, and Beethoven) have been dropped in favor of avant-garde works. The ineptitude of the certified musicians is, for one thing, much less noticeable when playing such works as "Threnody for the Victims of the Glass Ceiling," and the cantata "Give Me Diversity or Give Me Death." But more important, such pieces don't aim merely to entertain people (derision of *mere entertainment* having become firmly established in all the musician schools), but raise their social consciousness.

Occasionally one reads in the newspapers in Ruloveria about rogue music groups' forming to play old-fashioned music and conductors' hiring performers without proper credentials. There are laws against that of course, but the problem keeps recurring despite prosecutions against the misguided people who think they can take music into their own hands.

"Education Schools" and the Teaching Profession

Freedonia and Ruloveria are imaginary, but with regard to schools and the training of teachers, the United States used to be like the former and has now become like the latter. School principals used to be able to hire the applicant they thought likely to do the best job of teaching (and also fire him if they proved wrong). In our modern, credential-bound world, however, principals usually may hire only from the ranks of individuals with "teaching certificates." One can only earn a teaching certificate by completing the course of study at an "approved" education school, and for the most part (although not completely), the education schools are dominated by education theorists who look at schools and teaching the way the leaders of my Ruloverian music schools looked at music.

If you wonder why American youngsters are so bad at reading and math, but are eager to tell you, for instance, that recycling is a moral imperative, the dominance of "progressive" theory in ed schools explains it. Professor E.D. Hirsch's 1996 book *The Schools We Need and Why We Don't Have Them* traced the source of our educational malaise to the influence of Teachers College at Columbia University, where "progressive" education ideas took root early in the twentieth century. Those trendy ideas, such as the notion that kids must be largely left free to "construct their own knowledge," have been absorbed into the mental framework of the people who comprise the education profession. That "progressive" philosophy of education is so widespread that students who wish to become teachers almost invariably become saturated with it in the courses they must take in order to become certified to teach.

A recent report on the education schools in Colorado sheds a great deal of light on the content of teacher education. The Colorado Council of Higher Education commissioned education professor David Saxe of Penn State to study the ed schools there to determine whether they were meeting the standards set by the state for such institutions. Saxe's report is a real eye-opener.

Colorado's "flagship" university is the University of Colorado at Boulder. Saxe's analysis of UC's education program was devastating. The school is accredited by the National Council for Accreditation of Teacher Education (NCATE), which may sound nice, but in fact requires an institution to embrace the "progressive" faddishness that Professor Saxe and other believers in traditional pedagogy decry. He wrote that the program at UC was "systematically shaped by progressive theories of social justice" and that most of the courses were characterized by "excessive proselytizing" and "strident indoctrination of students."

Proselytizing for what? NCATE is a bastion of educationists committed to the view that the main goal of schools is to right the wrongs of society (from a collectivist perspective) rather than to teach children fundamental skills and knowledge. Saxe quotes one prominent educationist who writes that "teaching and teacher education are fundamentally political activities and it is impossible to teach in ways that are not political and value-laden." Schools should "help students understand and prepare to take action against social and institutional inequities that are embedded in our

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society." Forget the 3 Rs; saturate the kids with collectivist ideology.

The syllabus for a beginning education course at UC states that "we will be examining general curriculum issues, questions about teacher professionalism, academic success and race, class, ethnicity, gender, sexual orientation and power." Syllabi for other courses make it plain that the professor is interested in turning out young "social justice" activists, not teachers competent in instructing youngsters in reading, mathematics, and so on. Trendy social critiques are showered on the students, most of whom are, many studies have shown, among the least intelligent of college students. (See Thomas Sowell, *Inside American Education* [New York: The Free Press 1992], p. 25.) That the indoctrination sticks fairly often is seen in the fact that so many teacher's union members are activists on the political left.

Besides the "social justice" slant, the education theorists also promote the idea that education must be "learner-centered" as opposed to "teacher-centered." In "learner-centered" classrooms, teachers don't do much teaching at all, since the theorists have concluded that it's better for them to act as "facilitators" helping children to "construct their own knowledge." That approach has come to be called constructivism, and it is the dominant view in most education schools. (There are, however, some exceptions.) Constructivists believe that it is more "natural" for children to learn on their own with the teacher acting merely as a "guide on the side."

The "learner-centered" theorists drum into their students that "teacher-centered" methods are antiquated and harmful. To use "drill and kill" methods will stifle the "natural enthusiasm" children have for learning and keep them from becoming "lifelong learners."

With the role of the teacher changed to "learning facilitator," it is evident why the ed schools see nothing wrong in sending forth graduates who have little or no learning themselves in areas they will teach. Teachers don't have to be experts in math to teach math, experts in science to teach science, and so on. They need to know how to teach, not what to teach. Most education-school graduates with their beautiful teaching certificates in hand are like our music-school graduates who spent all their time in courses on dubious theories of musicianship rather than actually learning to play an instrument.

There is an abundance of evidence that "learner-centered" education is a failure from the perspective of parents who want to see their children making rapid progress through the educational basics and on to more advanced learning. On international tests of math and science, American students overall are well behind students from nations such as Japan, where they still use "old fashioned" methods (and where, as Professors James Stigler and James Hiebert observe in their book *The Teaching Gap* [1999], teaching is really a profession in that teachers are constantly refining their lesson plans and honing their skills). Of course, the average American score includes the scores of students who haven't been dawdling in classrooms where they are "constructing their own knowledge." If we compared children who have been "taught" by those facilitator-teachers with those who have been taught by teachers using the despised teacher-centered methods, the results would be even more striking.

The Test of the Market

The education establishment is trying to capitalize on the growing perception that we face an "education crisis" by lobbying for legislation that would "professionalize" teaching and "raise standards" by compelling all teachers to go through the portals of "accredited" education schools like the University of Colorado. But the "accreditation" they want simply means that the school will adhere to the "progressive" model of teacher training. It is, in other words, an attempt to use politics to corner the market on teacher training.

When put to the test of the market, the "progressive" education schools do not fare well. Where schools have a choice of hiring "certified" teachers with education degrees or individuals who have degrees in other fields, they tend to prefer the latter. Schools that compete for students whose parents can readily place them elsewhere would rather have someone

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with a degree in mathematics than someone with an ed-school degree who would shrink in terror from a polynomial equation. A study by Professor Caroline M. Hoxby of Harvard found that among private-school administrators, teaching applicants who did not have ed-school credentials were preferred over applicants who did. ("Would School Choice Change the Teaching Profession?" National Bureau of Economic Research Working Paper W7866, August 2000.) At Choate Rosemary Hall, one of the most prestigious of the nation's prep schools (among its graduates was John F. Kennedy), out of more than 100 faculty members, only three have state teaching certificates.

In an educational system based on freedom, decision-makers would take the same approach as the orchestra director in Freedonia and look for evidence of ability rather than ruling people out because they don't have government-prescribed credentials. There would probably still be teacher-training schools, but they would have to compete among themselves, and graduates of those schools would compete with teachers who had no formal training. School principals would figure out how to find the best applicants. My guess is that education schools like the University of Colorado would turn out to be the Edsels in that market. Schools like that can survive only because government intervention guarantees a market for the students who earn degrees from them. □

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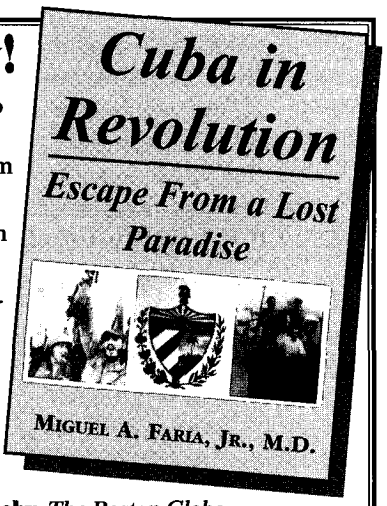

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IDEAS ON LIBERTY
NOVEMBER 2001

A Myth Shattered: Mises, Hayek, and the Industrial Revolution

by Thomas E. Woods Jr.

The standard view of the Industrial Revolution among the general public is that it led to the widespread impoverishment of people who had hitherto been enjoying lives of joy and abundance. For at least the past several decades, however, alternative interpretations of this critical period have grown so abundant that even Western civilization textbooks, always the last to adapt to new trends in scholarly thinking, have been forced to concede the existence of what is referred to as the "standard of living debate" surrounding the Industrial Revolution. Already in the 1940s and 1950s, the great Austrian economists F. A. Hayek and Ludwig von Mises were among those who advanced an alternative view.

One of the reasons that so many falsehoods and fallacies had come to surround our understanding of the Industrial Revolution, according to Hayek, was that the historians who had studied the matter had been blinded by their own ideological preconceptions. Many of them were Marxists, who believed as part of their creed that industrialization simply *had* to have made the workers miserable. As Hayek puts it: "[B]ecause the theoretical preconceptions which guided them postulated that the rise of capitalism must have been detrimental to the working classes, it is not surprising that they found what they were looking for." In short, they had not approached the evidence in the spirit of impartial rationality that befits a scholar, but rather with the ideological ax to grind that characterizes the propagandist.[1]

Economist and philosopher Leopold Kohr was far from alone among intellectuals suspicious of capitalism when he suggested in his book *The Breakdown of Nations* (1957) that the tremendous rise in reform movements and social criticism in the wake of the Industrial Revolution must have been an indication of worsening conditions. "[A]n increase in reform movements," wrote Kohr, "is a sign of worsening, not of improving, conditions. If social reformers were rare in former ages, it could only have been so because these were better off than ours."[2]

But according to Hayek, this is not necessarily so; in fact, the exact opposite is more likely the case. The very fact that we hear complaints in the late eighteenth and early nineteenth centuries about the appalling conditions in which many people lived and worked is, ironically enough, a point in the Industrial Revolution's favor. Before the Industrial Revolution, *everyone fully expected to live in abject poverty,* and what is more, they fully expected a similar fate for their descendants. The astonishing wealth that the

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Industrial Revolution brought forth now made people impatient with any remaining pockets of poverty. Before the Industrial Revolution, when everyone lived in grinding poverty, no one noticed or expressed outrage. Thus, as Hayek notes, we see in the eighteenth century "an increasing awareness of facts which before had passed unnoticed." He goes on: "The very increase of wealth and well-being which had been achieved raised standards and aspirations. What for ages had seemed a natural and inevitable situation, or even as an improvement upon the past, came to be regarded as incongruous with the opportunities which the new age appeared to offer. Economic suffering both became more conspicuous and seemed less justified, because general wealth was increasing faster than ever before."[3]

One might also mention in this context the famous observation of the great economist Joseph Schumpeter. He offered the additional argument that more than anything else the stupendous wealth which capitalism created was, ironically, what enabled the critics of capitalism to occupy the position of full-time intellectual, enjoying the comforts of leisure and civilization that the system they so decried made possible. Schumpeter feared, in fact, that this development would prove fatal to capitalism. The rise of a distinct class of intellectuals, utterly ignorant of economics, who blame capitalism for every social ill would tend over time to wear down the public's attachment to the system and would ultimately lead to the replacement of capitalism by an avowedly socialist economy. In short, Schumpeter feared, the very success of capitalism sowed the seeds of its eventual destruction.

Capitalism Creates the Proletariat

Hayek goes on to say that the "actual history of the connection between capitalism and the rise of the proletariat is almost the opposite of that which these theories of the expropriation of the masses suggest."[4] In Hayek's view, capitalism created the proletariat in the sense that the new opportunities for work that it created meant that many more people could survive. "The proletariat which capitalism can be said to have 'created' was thus not a proportion which would have existed without it and which it had degraded to a lower level; it was an additional population which was enabled to grow up by the new opportunities for employment which capitalism provided."[5] Before the Industrial Revolution a person unable to make a living in agriculture, or who had not been provided by his parents with the tools necessary to go into an independent trade, found himself in dire straits indeed. What the Industrial Revolution made possible, then, was for these people, who had nothing else to offer to the market, *to be able to sell their labor to capitalists in exchange for wages*. That is why they were able to survive at all. The Industrial Revolution therefore permitted a population explosion that could not have been sustained under the stagnating conditions of the pre-industrial age.

Hayek and Mises dispute the suggestion that that age was prosperous and satisfactory. The standard tale, of course, is well related by Mises:

> The peasants were happy. So also were the industrial workers under the domestic system. They worked in their own cottages and enjoyed a certain economic independence since they owned a garden plot and their tools. But then "the Industrial Revolution fell like a war or a plague" on these people. The factory system reduced the free worker to virtual slavery; it lowered his standard of living to the level of bare subsistence; in cramming women and children into the mills it destroyed family life and sapped the very foundations of society, morality, and public health.[6]

Mises joins Hayek in suggesting that conditions prior to the Industrial Revolution were in fact catastrophically poor. The economy on the eve of the Revolution was hopelessly static, and possessed no outlet whatever for the increasingly sizable number of people for whom a living in agriculture or domestic manufacture was impossible.

As Mises argues, the very fact that people took factory jobs in the first place indicates

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that these jobs, however distasteful to us, represented the best opportunity they had. (This is an illustration of Murray Rothbard's concept of "demonstrated preference," according to which an individual's preferences, when expressed in voluntary action, provide the only absolutely reliable indicator that he has substituted what he believes will be a more satisfactory state of affairs for a less satisfactory one.) "The factory owners," Mises writes, "did not have the power to compel anybody to take a factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless much more than these paupers could earn in any other field open to them. It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from starvation."[7]

Mises concedes that in the first decades of the Industrial Revolution "the standard of living of the factory workers was shockingly bad when compared with the contemporary conditions of the upper classes and with the present conditions of the industrial masses. Hours of work were long, the sanitary conditions in the workshops deplorable. . . . But the fact remains that for the surplus population which the enclosure movement had reduced to dire wretchedness and for which there was literally no room left in the frame of the prevailing system of production, work in the factories was salvation. These people thronged into the plants for no reason other than the urge to improve their standard of living."[8]

Mass Production

Another central point is that industrial capitalism is dedicated to mass production. "The processing trades of earlier ages," Mises explains, "had almost exclusively catered to the wants of the well-to-do. Their expansion was limited by the amount of luxuries the wealthier strata of the population could afford."[9] Factory production, on the other hand, was geared toward the mass production of inexpensive goods for the common man. This represents an extraordinary step forward in *everyone's* standard of living. And it is this principle on which the entire capitalist system is based:

> The outstanding fact about the Industrial Revolution is that it opened an age of mass production for the needs of the masses. The wage earners are no longer people toiling merely for other people's well-being. They themselves are the main consumers of the products the factories turn out. Big business depends on mass consumption. There is, in present-day America, not a single branch of big business that would not cater to the needs of the masses. The very principle of capitalist entrepreneurship is to provide for the common man. . . . There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.[10]

Our understanding of historical events necessarily influences our political views here and now. Our view of the Industrial Revolution indirectly colors our perception of present-day economic issues. Does capitalism, when left undisturbed, tend to increase everyone's well being, or is government intervention necessary to prevent widespread impoverishment? This is what is at stake in the ongoing debate over the Industrial Revolution, and in this undertaking F. A. Hayek and Ludwig von Mises were noticeably ahead of their time. □

1. F.A. Hayek, "History and Politics," in *Capitalism and the Historians*, ed. F.A. Hayek (Chicago: University of Chicago Press, 1954), p. 22.
2. Leopold Kohr, *The Breakdown of Nations* (New York: Rinehart & Co., 1957), p. 155.
3. Hayek, "History and Politics," p. 18.
4. Ibid., p. 15.
5. Ibid., p. 16.
6. Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd. rev. ed. (Chicago: Henry Regnery, 1966 [1949]), p. 618.
7. Ibid., pp. 619–20.
8. Ibid., p. 620.
9. Ibid.
10. Ibid., p. 621.

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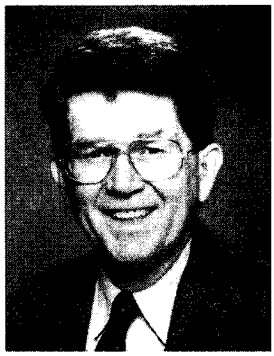
Economics



Maximum Cooperation Means Minimum Cost

There are two big advantages to a pollution-control policy that relies on transferable pollution permits. First, firms can reduce pollution any way they choose, which will be the cheapest way possible. Second, firms will coordinate their reduction with one another so that the pollution target is achieved as efficiently as possible. In last month's column, I explained how that coordination causes firms to adjust their pollution so that the greatest possible value is created by the allowable pollution. I now emphasize the other side of the same efficiency coin—reducing pollution to the allowable level at least cost, or the least sacrifice in value.

With pollution permits any firm (or any polluter) can legally discharge a specified amount of the designated pollutant only if it owns the required permits. As long as the firm's marginal cost of pollution reduction is less than the market price of a permit it will reduce pollution rather than buy the necessary permits. As the pollutant is reduced, however, the marginal cost of reduction increases and at some point will become equal to the permit price. Reducing pollution another unit below that point will cost more than buying a permit allowing the unit to be discharged into the environment. So the firm will reduce pollution until the marginal cost of reduction equals the permit price, with enough permits being purchased to cover the remaining pollution.

Thus the market price of pollution permits will tend toward the marginal cost of reduction. If the price is higher, firms will do more to reduce pollution so they can sell permits, driving the price down. If the price is lower than marginal reduction cost, firms will buy more permits so they can reduce less, driving the price up.

Because firms have to pay to pollute, they will be alert to cheaper ways to cut their discharges. When they are successful they will sell permits, causing their price to fall. But some firms will be facing increasing demands for their products, and they may have to pollute more to meet that demand even with better reduction techniques, which can increase their marginal cost of pollution control. These companies will be buying permits, increasing their price.

Firms communicate and cooperate through the price for pollution permits. The firm whose marginal cost of control increases communicates that information by bidding up the permit price a little bit with its purchases. Other firms respond to this information by selling a few permits. They act *as if* they are saying, "Another firm is telling us that its marginal cost of pollution control is higher than ours, so we will reduce our pollution a little more so it can reduce its pollution a little less." Conversely, the firm that can lessen its marginal cost of reduction communicates that information by putting downward pres-

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sure on the permit price by selling some permits. Other firms, by buying a few more permits, will be acting *as if* they are saying, "Another firm is telling us that its marginal cost of pollution control is less than ours, so with it polluting a little less we can pollute a little more and still keep pollution within the allowable limit."

Since the price of permits is the same for all firms and it pays each to reduce pollution until its marginal cost of doing so equals that price, the marginal cost of control is roughly the same for all. This "equating at the margin" means that all opportunities to lower costs by reallocating pollution reduction among the firms have been exploited through a process of mutual adjustment.

The Evidence

The argument for pollution permits doesn't tell us how much the cost advantage is relative to the command-and-control approach. Numerous studies have estimated the actual cost of pollution reduction for different air pollutants and locations under current EPA policy and then compared those costs to what the same reduction would have cost with a pollution-permit approach.

Those studies all show that the permit approach is cheaper than the command-and-control approach, usually much cheaper. For example, the reduction of particulate air pollution over St. Louis is six times more costly than it needs to be; the reduction of sulfur dioxide from the air over the four corners region of Utah, New Mexico, Colorado, and Arizona is 4.25 time more costly than it needs to be; and the reduction of nitrogen dioxide air pollution over Chicago is 14.4 times more costly than it needs to be.[1] With pollution control costing tens of billions of dollars annually, the possible cost reductions would save tremendous amounts of money, with more done to reduce pollution.

Also important are the motivation and freedom that permit prices give each polluter to decrease pollution cheaply. In the few cases where permits have been experimented with the price of the permits is typically far lower than anticipated because polluters found ways to reduce pollution more cheaply than anticipated. When Wisconsin Power and Light started trading sulfur dioxide permits with Duquesne Light of Pittsburgh as part of a test case, the permits were expected to sell for $600 to $700 per ton of pollutant. They sold for around $150 instead.[2]

Reducing Bad Taxes

If the government sells off pollution permits, it will raise lots of money: tens of billions of dollars or more. This is not necessarily desirable. Sure, if the government has more money it can do more good things. The problem is (1) the government often spends money on things that destroy rather than create wealth (for example, imposing trade restrictions, enforcing silly regulations, controlling prices, and subsidizing unproductive activities), and (2) even if the money is spent to create value, it comes out of the private sector where it would have probably produced more value. But there will be a net gain if the government uses the revenue from permits to reduce taxes by the same amount. Most government revenue comes from taxing desirable activities, such as working, saving, and consuming. This is the reason for the dead-weight cost of taxation that I explained in my March 2000 column. Reducing this revenue by substituting revenue from a tax (the sale of permits) on an undesirable activity like polluting would reduce the dead-weight cost of taxation without reducing government revenue. The danger here is obvious: Government will take the revenue from selling permits without reducing other taxes. □

1. These and similar studies are summarized in Tom Tietenberg, *Environmental Economics and Policy*, 3rd ed. (Boston: Addison Wesley, 2001), pp. 270–73.

2. Gregg Easterbrook, *A Moment on the Earth* (New York: Viking Penguin Books, 1995), pp. 177–78.

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IDEAS ON LIBERTY
NOVEMBER 2001

Why Economies Grow

by Aaron Schavey

One of the consequences of living in an affluent society such as the United States is that the poverty of the majority of the world is often overlooked. For instance, a recent report from the Organization of Economic Cooperation and Development (OECD) noted that the income of the average African in 1995 was roughly equal to the average income of someone living in Western Europe in 1820![1] A more recent report by the World Bank revealed that approximately 2.8 billion people—nearly half the world's population—live on less than $2 a day.[2] On a global scale, poverty is rampant.

Behind these statistics are the people who don't know where their next meal is coming from, suffer from diseases induced from widespread poverty, or spend 15 hours or more a day working just to earn a few dollars. In contrast, most people in the United States take for granted the luxuries a rich economy affords them, and many assume that the rest of the world resembles the United States.

To illustrate the misconception many Americans have about the poverty of the developing world, consider the outrage expressed over "sweatshops" in these countries. If Americans truly grasped the poverty of these nations, would they have such a negative reaction to reports on the working conditions there? Or would they realize that sweatshop conditions are the best conditions—horrific as they are—that developing countries can provide? If Americans truly understood global poverty they would realize that most people who work in the sweatshops prefer their current employment over the alternative of not working.[3] When an employee in a textile factory loses his job the opportunities for finding another job are low or nonexistent. Simply put, citizens in developing countries prefer "sweating" over starving.

But before working conditions can improve and enough food can be produced, the developing countries must grow. They must implement policies that encourage economic growth rather than the stagnant or even declining growth rates many poor countries experienced throughout the twentieth century.

The experience of countries such as Hong Kong, South Korea, and Singapore should give hope to a number of developing countries today. A half-century ago these countries were as poor as—if not poorer than—many developing countries today. Now these countries are some of the wealthiest in the world. Real GDP in Hong Kong in 1998 was 15 times larger than it was in 1960, while Korea was 16 times larger and Singapore 22 times larger. In contrast, real GDP in sub-Saharan Africa increased only 3 times over this same time period (see chart 1).

How did they do it? The answer is economic freedom. These countries restructured their economies by creating institutions that allowed citizens to make economic deci-

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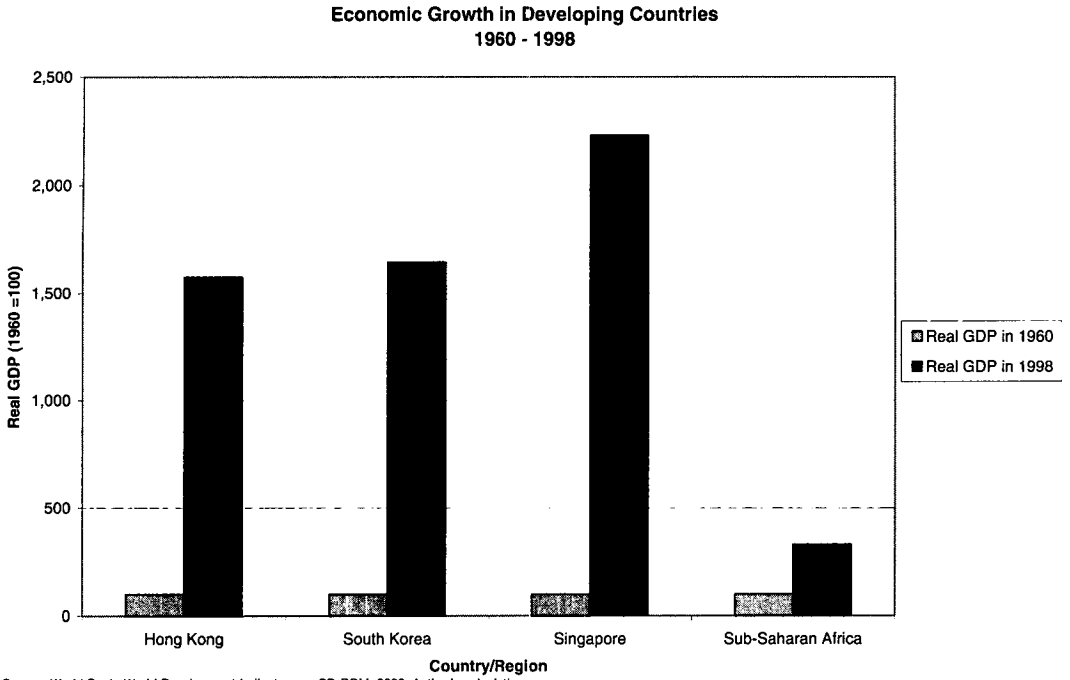

Source: World Bank, World Development Indicators on CD-ROM, 2000. Author's calculations.

sions without government interference. By creating an environment where economic freedom flourishes, these countries experienced rapid growth and were able to lift themselves out of poverty.

Institutions of Freedom

What are the institutions that promote economic freedom? To answer this question, it is useful to look at the Heritage Foundation's *Index of Economic Freedom*, which measures the level of economic freedom in 161 countries. The Heritage Foundation looks at ten factors assessing the institutions under which a society operates. The *Index* demonstrates that if a government establishes institutions that respect and facilitate economic freedom, economic growth will follow.

The ten factors that the Heritage Foundation examines are:

Trade policy. When individuals are free to engage in trade with people in other nations, economic growth is promoted, since the buyers can acquire goods and services more cheaply abroad than they can produce at home. For developing countries, open trade is essential for acquiring products and technologies unavailable at home. Moreover, open trade encourages developing countries to specialize in the things they are best at producing, which helps them finance needed imports.

Fiscal burden of government. If governments keep taxes low, it gives people an extra incentive to work. Clearly, society benefits when the incentive to work more hours increases. Besides, the less a government taxes its citizens, the more money they have to pursue their own goals.

Government intervention in the economy. A government that operates a hotel, restaurant, or any other business crowds out private investment. Besides, government enterprises are often inefficient and act as a drag on the economy. Financing these enterprises further erodes economic freedom by reducing the amount of resources and opportunities available for the private sector.

Monetary policy. A modern-day economy needs a sound currency that can be used for exchange and storing value and as a unit of account to allow comparisons across goods and services. If the government debauches the

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currency, the country will suffer from the problems of inflation. Under inflation, economic freedom is eroded because the ability of individuals to make long-term contracts is sharply curtailed, the incentive to save diminishes, and prices are distorted. Even John Maynard Keynes warned of the evils of inflation: "by a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."[4]

Capital flows and foreign investment. Governments that recognize Wal-Mart's right to open a store or Honda's right to open a factory increase the level of economic freedom in their countries. If foreigners are free to invest in a country, its citizens' economic choices are expanded. If Wal-Mart opens a store in China, it creates employment for the local residents, but it also creates other business opportunities for local distribution companies, local clothing and toy manufacturers, and so on. However, foreigners will invest in a country only if they believe they will be able to get their money out of the country. Therefore, it is essential that countries allow capital to flow freely.

Banking and finance. Certain economic activities, such as building homes, opening factories, and acquiring capital goods, require financing through a bank. Governments that regulate the allocation of credit through interest-rate controls or subsidies artificially affect the level of economic activity. For instance, interest-rate caps reduce the amount of credit available by preventing banks from making loans to individuals willing to undertake especially risky activity. Similarly, governments that subsidize banks or make loan guarantees encourage individuals to engage in risky economic activities that would otherwise not take place. (These ventures often result in losses in the long run.) When governments abstain from interfering in the financial sector, economies tend to be most efficient at providing the needed financing of the economic activity.

Wages and prices. Wages and prices play a crucial role in a market economy by providing signals to producers and consumers. An entrepreneur wanting to expand production can attract more workers by offering a higher wage. Similarly, prices communicate information to entrepreneurs that assist them in identifying changes in demand for and supply of their product. If the demand for a good increases, this will be reflected in the price of the product, and the new price will be a signal to producers to increase production. When governments allow prices to be freely determined, the efficiency of the market increases dramatically.

Property rights. A government that provides a secure rule of law, an efficient court system, and an independent judiciary creates an environment that encourages exchange, innovation, and investment. When property rights are secure, citizens know that if they take a risk and the undertaking proves successful, they will receive the rewards. They do not have to worry about someone stealing their profits. Nor do they have to invest scarce resources trying to simulate what property rights would achieve, such as paying protection money to a gang.

Regulation. In a market economy entrepreneurs transform scarce resources such as capital and labor into goods and services demanded by the public. The public benefits, while the entrepreneurs are rewarded with profits. Governments that make it difficult for entrepreneurs to start up businesses prevent them from engaging in this activity. Similarly, if governments impose burdensome environmental or health and safety regulations, the cost of doing business will go up and may discourage entrepreneurs from producing.

Black market. A black market indicates that some government obstacle prevents individuals from acting in the legal market. Black markets provide a valuable service by allowing economic activity to take place that is prohibited. But they are usually attended by undesirable features, such as the violent settling of disputes. Legalizing the prohibited activity would end the violence and restore economic freedom.

Growth Follows Freedom

These factors represent ten key elements in an economy that affect an individual's incen-

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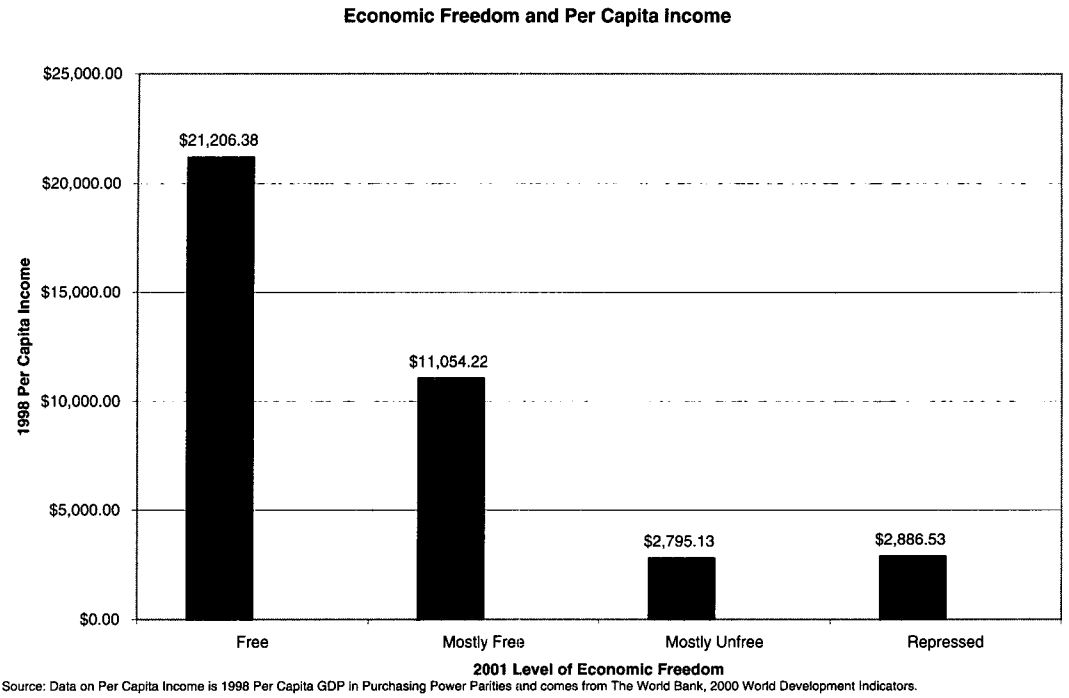

Source: Data on Per Capita Income is 1998 Per Capita GDP in Purchasing Power Parities and comes from The World Bank, 2000 World Development Indicators.

tive to engage in an economic activity. In those countries where economic freedom is maintained and individuals pursue their economic goals without government interference, economic growth follows. This can be seen in Chart 2, which shows the level of per capita wealth according to level of economic freedom.

The chart shows little difference between "repressed" and "mostly unfree" countries in terms of per capita income, but once an economy moves from the "mostly unfree" category, per capita income increases nearly four times. The chart also shows that income per capita among "free" economies is, on average, nearly twice as high as income per capita among "mostly free" economies.

Developing countries seeking to lift themselves out of poverty should take seriously the lesson that people in free countries tend to accumulate more wealth on average than in less free countries. People whose countries move from the "mostly unfree" to the "mostly free" category will see their incomes rise. Along with economic growth come improved working conditions, reduced incidence of diseases, and the gradual elimination of the other hardships that poverty brings to a nation.

Approximately half the world's population lives in poverty in countries whose economies are either "repressed" or "mostly unfree." At the same time, the living standards of the average American eclipse that of a millionaire living in the 1890s.[5]

Clearly, poverty in the developing world needs to be addressed. Countless examples have proven over and over that economic freedom is the way to address it. Freedom is the key to economic growth. For developing countries struggling with poverty and despair, economic freedom offers hope. □

1. Angus Madison, "Monitoring the World Economy: 1820–1992," Organization of Economic Cooperation and Development, 1996, p. 22.

2. World Bank, "World Development Report 2000/2001: Attacking Poverty," Oxford University Press, September 2000, p. 3.

3. The United States has brought a lawsuit against a factory in Nicaragua over the poor working conditions. The 1,000 employees of the factory are asking that the lawsuit be dropped, because they fear that the lawsuit will cause them more harm than good. See Andrew Bounds, "Nicaraguan 'Sweatshop' Workers Want Lawsuit Dropped," *Financial Times*, February 5, 2001, p. 12.

4. John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan and Co. Ltd., 1919), pp. 102–103.

5. In the nineteenth century a millionaire didn't have a number of goods and services that are taken for granted today such as a refrigerator, an automobile, air travel, television, common medicines such as aspirin, or health care such as open-heart surgery, to name a few items. W. Michael Cox and Richard Alm, *Myths of the Rich and Poor: Why We're Better Off Than We Think* (New York: Basic Books, 1999), p. 23.

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CAPITAL LETTERS

Is the State Needed for Defensive Force?

To the Editor:

Donald Boudreaux, in "The 'A' Word" (July 2001), says "it's possible that even the best feasible stateless society will be worse than a society with a well-structured government constitutionally limited to protecting its citizens from violence and theft. But let the case be made." I wish to make that case. But first let me acknowledge his points that: "peace and order do not require state oversight of religious belief"; "sound money has been, and can be, issued by purely private firms"; "business people sharing no sovereign master developed law courts and procedures," etc. Thus religious, social, economic, and many other arenas require no state intervention.

Why then do we need government at all? Let us note that government is (overwhelming) force, and ask why we need force? The answer is immediate—to defend against aggression, foreign and domestic. This is virtually a tautology. If it is possible to deal with a matter by suasion, then force should not be used. Conversely, if there is no defense other than force, we have to employ it. We may state as a guide: One has no right to initiate force, but an obligation to defend against it. Now there are anarchists who claim that state force is never needed. However "the best feasible stateless society" will soon fall prey to a foreign or domestic army. There are also those who accept in principle the need for self-defense, yet invariably in practice conclude that force is unnecessary, whether this applies to a war, terrorism, immigration problems, taxation, etc. My argument however, is not to dispute any given situation, but merely to establish the principle that when there is a threat to our liberty or to our nation, we are obligated to use the requisite force to contain it.

Nevertheless, there is a practical side to the argument for minimal force. It permits us to compete in the war of ideas, whereas denying the reality of aggression will lose our audience. They will then disregard the vast majority of cases where state force is immoral and counterproductive.

Mr. Boudreaux writes, "I hold open the possibility and the hope that a prosperous and peaceful society can flourish without the state." This would require the development of culture, including the self-governance of individuals. These advances are not aided by liberating the tyrant and the barbarian, but by defense against all forms of aggression.

—ALLEN WEINGARTEN
Morristown, N.J.

Donald Boudreaux responds:

Allen Weingarten and I largely agree, although our one disagreement is fundamental. I fully agree with Mr. Weingarten's claim that force is sometimes necessary. The world has bad people who can be corralled or punished only with force. I endorse using force against those who initiate it against innocent others.

But contrary to Mr. Weingarten's presumption, a sovereign state is not necessary for the justifiable use of force. Imagine a stateless society—that is, a society in which no one has monopoly power to be final arbiter of the use of force within a particular geographic region. Each resident of that region might join one of any number of private protection agencies. Each agency promises to protect the lives and properties of its customers—with force, if necessary.

Such an arrangement is one in which force is used against predators to protect innocent parties. But there is no state.

Now it might reasonably be argued that imperfections make this kind of arrangement less desirable than a constitutionally limited state. But the issue is precisely the desirabili-

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ty of private, nonsovereign protective associations versus a state. Both can use force legitimately. But is the state more likely than are private protective associations to use force illegitimately? More and more, I fear that the answer is yes.

Wall of Separation or Not?

To the Editor:

I generally agree with Barry Loberfeld's article, "Freedom of Education: A Civil Liberty" (August 2001), but must correct one historical misunderstanding.

He construes the First Amendment ("Congress shall make no law respecting an establishment of religion, . . .") to mean that "Religious liberty includes both the freedom *and* the non-establishment of religion." No, that's not what the First Amendment intended.

He cites Jefferson and Madison as opposing state-established religion. So they did, and I fully agree with them—but their view did not prevail. In the compromise that became the First Amendment, the federal government was forbidden to establish any religion, and was also forbidden to interfere with state establishments. That's why it says "shall make no law *respecting* an establishment of religion" (emphasis added), rather than "no state shall have an established religion." That is, this is a subject that Congress must not touch, either to establish or disestablish.

The proof is that when the First Amendment went into effect, several states still had established religions, and they were *not* instantly disestablished, nor did anyone suppose that they should be. For example, Connecticut did not disestablish the Congregational Church until about 1825. The state establishments were done away with one by one through actions of the individual states, not in response to the First Amendment.

The notion that the First Amendment commands separation of church and state did not come until modern times, when the Supreme Court held that the Fourteenth Amendment applied the Bill of Rights to state actions, not just to federal acts. That "incorporation" decision would have astonished the authors of the Fourteenth and horrified the Founders.

—GEORGE W. PRICE
Chicago

Barry Loberfeld replies:

The meaning of "no law respecting an establishment of religion, or prohibiting the free exercise thereof"—no government *sanction of* religion, no government *ban on* religion—is not in any way altered by the fact that it (originally) applied to only the federal government ("Congress shall make") and not to the state governments.

James Madison is the *author* of the First Amendment. It's a little like saying Adam Smith's "view did not prevail" in *The Wealth of Nations*."

". . . I contemplate with sovereign reverence that act of the whole American people which declared that their legislature should 'make no law respecting an establishment of religion, or prohibiting the free exercise thereof,' thus building a wall of separation between Church and State." Thomas Jefferson, not Earl Warren.

As it is often remarked, "incorporation" seems to be the only thing that the Fourteenth Amendment *does* accomplish. Nor would the concept have "horrified" Founder Madison, who attempted it with an amendment (which he considered the "most valuable") whose language ("No state shall violate the equal rights of conscience. . . .") almost echoes the Fourteenth's.

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IDEAS ON LIBERTY
NOVEMBER 2001

Compensate Workers Harmed by Trade?

Should government financially assist workers harmed by free trade?

Many people answer yes. Such adjustment assistance sounds reasonable. But a deeper investigation of the issue counsels against it.

Losing a job indeed is harmful, both financially and emotionally. Free trade with foreigners, however, does not uniquely cause job losses. To focus on free trade's role in eliminating some jobs is to focus on a phenomenon that is inessential.

Suppose Congress eliminates all government-created obstacles to automobile imports. Some U.S. auto workers would lose their jobs as a result. But as a result of what, exactly?

The correct answer is: as a result of consumers' voluntarily buying more foreign cars than they bought when trade was restricted. These job losses result from consumers' voluntary choices.

A popular alternative way of explaining these losses is to blame foreigners: "Foreign producers stole these American jobs." If you don't think about the matter deeply, you might conclude that foreign producers are indeed the real culprits.

But with free trade, no producer sells anything that consumers don't wish to purchase. All that any producer does, in a free market, is to make offers to consumers. Ultimate buying decisions rest with the consumers. So blaming producers misses the mark. If you're looking for the real cause of a worker's job loss, look to consumers.

Much of the emotional hostility to free trade dissolves when we recognize who causes the job losses when trade is freer. When the ultimate cause of an industry's sagging fortunes is understood to be voluntary consumer choices, it's beside the point to fume and thunder against perfidious foreigners. And arguing for relief from the effects of the peaceful choices of fellow citizens is more difficult—although more honest—than arguing for relief from "foreign competition" or from an abstraction labeled "free trade."

But recognizing that consumers are the ultimate cause of particular job losses does not, by itself, argue against government assistance to those who lose their jobs when foreign trade expands. Proponents of assistance might argue that job losses resulting from consumer choice are no less real and painful. Precisely because free trade makes us wealthier (the argument goes), we as a nation must help those who pay the price for that policy.

One indication of the soundness of an argument is the willingness of its proponents to apply it consistently. If I argue that I can punch your innocent child for my amusement, I should be willing to extend to others the right to amuse themselves by punching my own four-year-old son. It will not do for me to assert, "No, no. The argument justifying my punching your child doesn't give you the right to punch my son. The reason is that my child is mine. I reserve the right to amuse myself by

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punching other people's children, but deny others the right to punch my child."

Those who argue for government assistance to workers who suffer losses when trade is made freer are guilty of the same sort of inconsistency revealed in the above hypothetical example. Here's why.

As noted, every job loss "caused" by free trade is caused, ultimately, by consumers voluntarily shifting some of their spending to foreign firms. But *anytime* consumers shift their spending—whether to purchase more foreign products or to purchase a different mix of domestic products—some workers are made worse off in the short run while others are made better off. Foreign competition plays no unique role in this dynamic, competitive process.

If consumers buy less beer brewed in Wisconsin and buy more wine made in California, do taxpayers owe relief to brewery workers? If Americans choose to spend less on Hollywood movies in order to invest more in IBM stock and U.S. Treasury bonds, should government assist out-of-work actors?

Those who endorse government assistance to workers harmed by freer trade with foreigners should, to be consistent, answer yes to the above questions. After all, the point of such assistance is to relieve the distress of job losses caused by changes in the patterns of economic activity. But few of those who advocate government relief for workers and firms suffering losses from free trade advocate this logical next step—a fact that accurately suggests that the first step is itself unwise.

A principal reason why most people instinctively avoid this next step is the correct understanding that such an attempt would freeze economic activity—and freezing economic activity kills it. If government set about to protect everyone from every economic difficulty caused by changes in the ways that consumers spend money, government would inevitably clamp down on entrepreneurial innovation and consumer freedom. How could it be otherwise? Because every innovation and every change in consumer wants would cost the state money, state officials would never allow entrepreneurs and consumers the freedom to cause government to spend money on economic relief. He who pays the piper does indeed call the tune. Only the state would decide which, if any, economic changes are permitted. Entrepreneurial creativity would be snuffed out and consumers would be stripped of the freedom to spend their money as they choose.

The resulting tyranny and destitution would rival the worst catastrophes perpetrated by Stalin or Mao.

State assistance for workers who lose jobs because of freer trade with foreigners has the virtue only of not immediately opening the door to wholesale government direction of all economic activity. Arguably, only foreign commerce would be frozen by such assistance (a bad-enough outcome, but one far less horrible than a freezing of *all* commerce). But if we wisely resist policies that entail freezing domestic economic activity, what good reason is there for pursuing a policy that will freeze economic activity in which consumers purchase foreign-made goods and services? None that I can see.

The twentieth century taught us that wholesale government direction of economic affairs inevitably fails. The only distinction between wholesale direction and boutique-sized direction is that the ill effects of the latter are less widespread and, hence, less noticeable than the ill effects of the former—hardly a good reason to tolerate such avoidable consequences. □

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BOOKS

The Driving Force of the Market: Essays in Austrian Economics

by Israel M. Kirzner

Routledge • 2000 • 320 pages • $100.00

Reviewed by Frédéric Sautet

A new book by Israel Kirzner is like a new movie by a great director whose work and style are familiar, but who always surprises his viewers with new ways of exploring his lifelong themes.

In fact, "exploring" is a word that describes Kirzner's work well. As he explains in *The Driving Force of the Market,* the proper approach to economics should be based on an "essentialist understanding of actual social phenomena." This essentialist approach, which is a distinguishing mark of the Austrian school, is what Kirzner pursues in his work by exploring the essence of human action in the context of uncertainty.

The book gathers 14 essays and three obituaries (for Ludwig von Mises, F. A. Hayek, and Ludwig Lachmann), which cover many of the most fundamental ideas of Austrian economics: subjectivism, the ethics of competition, the institutional structure of the market economy, the market process, and entrepreneurship.

Kirzner's account of the subjectivist approach in economics deepens our understanding of the sense in which Austrian subjectivism holds a "middle of the road" position between neoclassical economics and radical subjectivism. His defense is fundamental, as it allows Austrian economists to explain human action in an open-ended context through the notion of entrepreneurial alertness.

Questions of ethics (relating to economic concepts), explains Kirzner, should be answered with the best possible knowledge of the underlying economic issues. Thus ethical valuations of competition and profit, for instance, should be built on the knowledge that economics provides regarding the roles of entrepreneurial competition and pure profit. This relates to Kirzner's position regarding institutions. The institutions of the market economy (for example, property rights) cannot be determined by economic theory per se. The issue of their existence belongs to the realm of ethics. In other words, there is no endogenous explanation of market institutions in Kirzner's analysis. While economics can explain the existence of profit, it cannot explain the existence of the institutions that make profit possible. However, economics is necessary to pass a judgment on the usefulness of the market institutions that make profit possible. Whether one agrees or disagrees with Kirzner on the exogeneity of institutions, it is valuable to be reminded that "ethics and economics are intertwined."

In the essay that gave its title to the book, Kirzner reaffirms what makes market-process theory so different from the neoclassical understanding of competition. Fundamentally, he explains, "there is no market process other than the competitive one," even when the market brings about monopoly prices. In the absence of privileges (given to some market actors), the universality of the market process prevails and the interests of consumers are in line with those of producers. Since the case of true monopoly pricing is extremely rare in practice, the overwhelming majority of situations that neoclassical economists deem uncompetitive are in fact part of the discovery process of the market and cannot be improved on.

Economists such as Kirzner understand competition as a rivalrous process among market participants; that's how businessmen, if not "modern" economists, understand it. The problem is that when modern economists talk about competition outside their journals, they sound like Austrians, but when they discuss the subject among themselves, they don't. As a result, Austrian economists appear to the non-economist as if they were just giving a nonformal exposition of principles seriously explored by others. This, of course, overlooks the huge differences that only careful (essentialist) analysis can establish, which is why Kirzner's work is important.

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One could criticize Kirzner for not providing a realistic-enough account of entrepreneurial change. Indeed, the replacement of the horse-drawn carriage industry by the automobile industry discussed in chapter 13 lacks realism, as the new pattern of technological possibilities came only gradually into existence. In most cases, changes are not made up of one single big discovery by one entrepreneur but of a series of interdependent discoveries by many entrepreneurs. However, the issue is not so much the realism of his example, but the essence of entrepreneurial change. The automobile revolution, far from destroying an established order, "brought the pattern of resource allocation into a higher degree of coordination."

At a time when a lot of what economists produce is not useful to the understanding of reality, Kirzner's work is a great lesson in the way economics can contribute to the understanding of actual market phenomena. While being analytical and somewhat abstract, his work often offers direct policy implications. Kirzner has immensely contributed to the resurgence of Austrian ideas in the last decades, and this book is another instance of his invaluable contribution. □

Frédéric Sautet is senior analyst at the New Zealand Treasury.

Basic Economics: A Citizen's Guide to the Economy

by Thomas Sowell

Basic Books • 2000 • 432 pages • $30.00

Reviewed by Roger Meiners

Thomas Sowell is one of the fine scholars of our time. He has written on a wide range of important topics, is an excellent writer, and has provided some original insights into some difficult issues.

Teaching economics is difficult, as Sowell notes. He intends this book to be a primer on economics for the (intelligent) masses. Alas, I fear that he falls short.

I will spend little time discussing the content of the book because there is little new in it for the readers of *Ideas on Liberty*. Indeed, the book reads like a collection of incomplete articles from the magazine. As such, it is not as instructive or well written as most articles in this journal. The book is something of an organizational mess. Sowell notes in the preface that each chapter is to stand alone. Why that should be a goal, when a book is to be instructive on a topic as broad and difficult as economics, is unclear, but it does not work. Assuming readers were quite ignorant of economics, they would have to be quite literate about institutions, history, world events, and public policy to follow Sowell's (correct) analysis of the many topics covered.

Each chapter contains interesting tidbits, some of which were new to me and will be good to use in the classroom. But the chapters rarely stand alone as a solid overview of a topic. For example, Chapter 15, National Output, which is eight pages long, is to explain national income accounting and the like. What is there is fine (and clearly written), but, as in other chapters, Sowell cannot stick to the topic at hand. Within a page, he states that the fall in the money supply caused the Great Depression. That's another difficult story that needs to be laid out, not mentioned in passing to a neophyte. Similarly, in the same chapter he discusses the difficulty of comparing GDP across countries and gets into the problem of official exchange rates. That is far too complicated to explain in a paragraph.

If the chapters cannot stand alone very well, then the book should at least hang together in sequence, but it does not. There are 25 chapters. After every two or three chapters, the next chapter is called "An Overview." These tend to be a rehash of material just covered in the previous couple chapters; they are not summaries. These do not seem effective instructive devices and, if chapters are to stand alone, the overview chapters are irrelevant.

Perhaps it was intentional, but Sowell brings up the same examples repeatedly. The stories of Sears, Montgomery Ward, and A&P come up at various times, but do not have a thread that ties them together effectively across topics. Some stories are simply repeated almost word for word (such as the story

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about a factory in the USSR that is told on page 43 and then again in a footnote on page 75). Meanwhile, crucial topics are blown past in a page or two. In two pages he explains that foreign aid is bad, but one who doesn't already believe that will not be convinced by the statements made in the book.

Some of the author's discussions are so incomplete as to be nearly useless. We read, for example, that pollution is an externality that requires government intervention. Paul Samuelson, call your office. No mention of property rights. On the next page, Sowell moves on to say that pollution is a public good (or bad) like national defense. Two pages later the evils of central planning are noted, and on the next page the nitwittery of price controls is noted. This shotgun approach won't do for people who are just coming to these issues.

Sowell says he will not use graphs or jargon. There are no graphs, but "asymmetrical outside interests," "an empirical question," and "volitional pricing" seem to be jargon. The use of "widgets" to talk about production is jargon—and students don't like it. It's better to use real goods and services.

The book also has assorted typos, errors in the index, and incomplete references that were supposed to be filled out but never were. Since Basic Books does not edit its books, authors should beware! Overall, the book reads like a, um, second draft of a dictated manuscript. There are excellent tidbits from an author with deep knowledge, but the book needs major editing on all fronts.

As one who teaches economics at all levels, I constantly search for fresh ways to instruct the uninitiated. The textbooks on the market never seem quite right to me. But Sowell's book, which I had hoped to use in place of another text at some level, shows us how hard it is to perform that trick. The market for economics textbooks is highly competitive, and there are significant rewards for one who does a better job. Textbook market aside, a lot of bright people have attempted to teach economics to some large audience. I hope Mr. Sowell will give it another shot. □

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The Wealth of Man

by Peter Jay

Public Affairs • 2000 • 400 pages • $30.00

Reviewed by David L. Littmann

Peter Jay's *The Wealth of Man* is an attempt to trace the key episodes in man's economic course, from the time of the hunter-gatherer to our day. He presents his narrative as a waltz: One energetic step forward, one defensive step sideways, and then a retreat in an effort to regroup for the next forward motion.

Considering the author's credentials, this should be a slam-dunk. Educated at Oxford, Jay has a long and distinguished career as a journalist and historian. He served six years in the British Treasury before becoming the economics editor of the *Times* of London. The story is, as Jay himself avers, written by a layman for laymen, pretending no academic refinements. This is all well and good and makes for easy enough reading. The tradeoff is that the book is constrained in its depth and scholarly analysis. Still, the author presses home many important points for readers who don't understand the process of wealth creation.

Jay's "waltz" motif is clever and germane, especially considering the virulent twentieth-century strain of the politics of envy and income redistribution. He contends that man's innovative genius guides him toward higher living standards, and goes to great lengths to recount the discoveries, tools, and new production techniques employed through the ages to lift up the productivity of labor and create saving and surplus. Jay includes myriad valuable references to pivotal innovations, their timing, and application in the betterment of human living. He spans industries from manufacturing and transportation (steel making, stirrups, lateen sails, and the compass) to finance (joint-stock companies, paper currency, bills of exchange, and double-entry bookkeeping). Liberty and conditions favorable to invention are the catalysts to this wealth-accumulation process. So far, so good.

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In the second stage of this recurring cycle of economic evolution, predators emerge. Eyeing the wealth created by farming communities, aggressive and mobile tribes of hunters pillage and occasionally destroy early civilizations. Later, Vikings, Vandals, Goths, Huns, and Mongols invade and dismantle the wealth of existing empires, such as Greece, Rome, China, Persia, and India. Still later, within the societies that successfully built wealth and fortunes, disgruntled groups and individuals who feel alienated or left behind revolt or capture the reins of government in order to redistribute land, income, and other resources. This second step of the waltz is associated with the "Dark Ages." At that point, according to Jay, the citizens of the society must arrange a compromise, an accommodation with circumstances in order to proceed. This is step three.

What is the nature of this third step? How does society adapt to the predation that threatens or has already destroyed accumulated wealth? Herein lies the key to defining a nation's future. This is also, unfortunately, a low point in the author's analysis.

Jay correctly identifies those who fall behind economically—those who are poor or jealous—as advocates of wealth absorption or theft. He notes the pivotal role of government in developing programs to reconcile the redistributive agenda and the larger long-term global imperative of maintaining a friendly economic environment for wealth creators. Jay's mistake here is myopia. In modern, prosperous, full-employment America there is a shrinking proportion of the population that can be called poor, ignored, or economically abandoned.

Ironically, the plunderers of wealth are seen everywhere: Those who are wealthy but nonetheless envious of others; the fearful but wealthy seniors; guilt-ridden inheritors of wealth; those who intentionally seek to remove the ladder of opportunity from those coming after them; those who have made their fortunes but now seek government intervention to protect themselves from competitors; trial lawyers whose enormous contingency awards help elect advocates of still greater wealth and power transfers.

Rather than complete the analysis by probing the genre and motives of economic predators, however, Jay proceeds to compile his own list of capitalism's "practical shortcomings: inequality, instability, and monopolistic exploitation." He also considers market systems "environmentally-challenged."

With those conventional (and misguided) bows to interventionism, Jay turns his book from a solid analysis of man's economic struggle into a bowlful of mush.

In a sense, the book is confused. Jay does help us understand the key ingredients generating the first step in the waltz—an economic system that maximizes the four "I's" (information, incentives, investment, and innovation). The competitive market economy is the fullest flowering of such a system in mankind's history. But alas, he seems to cast his lot with those who believe that we need an amorphous "mixed" system, with government in charge of syncopation, as the necessary ingredient to keep the wealth of man trending upward. Viewing the economic damage wrought by governments over the last century, some readers might argue that such a musical direction, rather than a waltz of wealth, is a march to economic oblivion. □

David Littmann is senior vice president and chief economist with Comerica Bank in Detroit, Michigan.

Mail at the Millennium: Will the Postal Service Go Private?

Edited by Edward L. Hudgins

Cato Institute • 2000 • 233 pages • $10.95 paperback

Reviewed by George C. Leef

The copy of *Ideas on Liberty* you're reading was most likely delivered to you by an employee of the United States Postal Service (USPS). If there were alternatives open to FEE in the distribution of its magazine, it would certainly explore them to see if costs could be reduced—but there are no alternatives. Thanks to federal law, the USPS has a monopoly on magazine delivery, as well as letters, bills, and postcards. (My view is that

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the Private Express Statutes, which create that monopoly, are unconstitutional, since nothing in Article I gives Congress the power to establish monopolies—one of the gripes the colonists had with the British Crown. Now back to the review.)

With communications technology changing so rapidly, many people are wondering whether the postal monopoly will survive much longer. Last year the redoubtable Cato Institute put together a program on the future of the government's intrusion into the market for mail delivery, and this book is the published version of the proceedings. As usual, Cato's roster of participants was excellent and the talks given most enlightening.

And, again following its usual practice, Cato did not invite only people on one side of the controversy. The first speaker was none other than William J. Henderson, the postmaster general. Henderson did exactly what one would expect, namely to defend his turf. He argued that the efficiency of the USPS has improved in recent years and that it was beneficial to maintain a one-price system ensuring service for all. "We keep open some 26,000 unprofitable post offices so that every American has access," he said. Exactly why it's so important to make sure that we have postal equality when Americans readily adjust to inequalities in other markets he did not explain. As Robert Cohen of the Postal Rate Commission observed later in the program, in a free competitive market, all Americans would still get postal service, only not as often for some. What's so bad about that?

Several contributors comment on other countries' privatization of postal services. New Zealand has eliminated the monopoly its postal service formerly enjoyed and privatized à la Margaret Thatcher by selling shares to the public. The Germans are privatizing Deutsche Post. And Sweden—yes, socialistic Sweden—has had the uncommon good sense to allow open competition in mail delivery. These and other foreign developments give one reason for optimism that the days of our own postal monopoly are numbered.

Or are they? The USPS is a behemoth with over 900,000 unionized workers who bare their fangs at the idea of a free market. They are significantly overpaid, D. Richard Froelke observes in his essay, "Labor Market Outcomes of Postal Reorganization." Froelke writes, "[A]dversarial collective bargaining has resulted in postal wage levels far higher than the compensation and benefits paid for comparable levels of work in the private sector."

The postal union and USPS management have strong incentives to keep the good times rolling and thus have made moves to reposition their dinosaur for the digital age. In the book's most worrisome essay, James P. Lucier's "Dangers in Cyberspace," the author discusses the problem, saying, "With little fanfare, the U.S. Postal Service is transforming itself from the mostly postal business of the past to something more like an Internet portal for the future. . . . Functions that were once peripheral to its current mail monopoly are central to its new role as the postal e-mail inspector, paymaster, address-bookkeeper, trusted third party, guarantor of identities, architect of on-line business directories, and universal intermediary of cyberspace."

Not that we *need* to have a governmental entity providing any of those tasks. Private enterprise can handle it all perfectly well. But the postal administrators and workers *want* a new role for themselves and will use all their political clout to try to secure it.

Economist Michael Schuyler also explores USPS efforts to infiltrate other areas of business. He favors keeping it out of them, writing, "In addition to its monopoly powers, the Postal Service possesses many advantages that are not enjoyed by private competitors: It pays no income taxes; is exempt from most other taxes; is exempt from many federal, state, and local regulations; has federally subsidized borrowing privileges; and has no investors expecting it to earn profits." Schuyler wants to see the USPS kept out of competitive markets.

The USPS would like to keep a low profile and worm its way into new areas of business while milking its traditional monopoly as long as possible. The postmaster general and his minions would rather have the public's attention drawn to glamorous battles like taxes and education while it quietly works in political

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channels to create a new niche for itself. Bravo to Cato Institute for its efforts to keep that from happening. □

George Leef is the book review editor of Ideas on Liberty.

The Power of Gold:
The History of an Obsession

by Peter Bernstein

Wiley & Sons • 2000 • 432 pages • $27.95

Reviewed by Lawrence Parks

When it comes to disparaging gold, Peter Bernstein can't be outdone. Among other traducements, he blames gold for: the institution of slavery; having "torn economies to shreds"; the Great Depression of the 1930s; and many other "horrors."

In Bernstein's view, people who advocated the gold standard were "deluded," "intoxicated," "obsessed," and "haunted." He contends that the gold standard was "primitive" and the result of "cupidity and stupidity." Not only does he believe that gold is not useful for anything save adornment, but that dire political and social consequences result from its use as money.

The book, which is actually quite readable because of its many amusing anecdotes, has the odd benefit of collecting in one place virtually every negative about the gold standard. Among the more obvious and blatant misrepresentations Bernstein makes are: "As we shall see, the gold standard developed all the trappings of a full-fledged religion: shared beliefs, high priests, strict codes of behavior, creed, and faith."

In fact, the gold standard was a market response to the need for a medium of exchange (money) that would minimize the transaction costs of transferring wealth geographically and over time. Money helps facilitate a division of labor, and the better quality the money, the longer the investment time-horizon, the more specialized the division of labor, and the higher the standard of living. Bernstein understands none of that.

Bernstein's misconceived attacks are relentless. "Despite all the gaiety associated with the Roaring Twenties, the fixation on gold during the 1920s and early 1930s makes the period resemble a horror movie," he writes. The real horror was money creation by banks, not a "fixation on gold."

"Over the years," Bernstein writes, "debasement has come to mean any irresponsible, or at least ill-advised, effort to create new money out of nothing—a process at which governments have become increasingly ingenious with the passage of time." But there is no such thing as "responsible" debasement. Debasement is theft, plain and simple. It is telling that those who oppose the gold standard have no trouble staking out the moral low ground. "Financial rectitude, though much admired, has never been a sure road to prosperity," Bernstein says. Financial rectitude is necessary but not sufficient for prosperity, which never emerges in a climate of government financial manipulation.

Bernstein attacks gold for all manner of governmental mayhem. He writes, for example, "After the surge in paper money and bank deposits produced by the enormous financing requirements of the Napoleonic conflict and World War I forced Britain to suspend convertibility of sterling into gold, the obsession with 'superior-quality money' drove the British back to gold at the earliest possible moment. In both cases, drastic deflations followed, with serious social disturbances."

Why blame gold for this? The problem was caused by money creation out of nothing to finance war. Also, why characterize keeping promises, that is, the redeemability of the paper tickets for gold, as an "obsession"? Isn't it essential for society to ensure that promises—contracts—are enforced?

Bernstein looks favorably on paper money: "This newfangled idea [paper money in China in the thirteenth century] appears to have been more of a historical accident than a stroke of financial genius, but the long perspective of history suggests that Hien Tsung's inadvertent innovation should join printing, gunpowder, and the compass among China's most enduring contributions to the civilization of the world." But the only way this "innovation" was accepted was by force. Tsung's paper

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money would have been rejected except for draconian penalties—death!—for people who did not accept it.

Lastly, Bernstein glosses over the most important event to befall gold in the twentieth century: for 40 years it was a felony for Americans to own monetary gold in any form, any place in the world. All he has to say about this is: "In 1933, the U.S. government prohibited the ownership of monetary gold by any individual, company, or political entity except the federal government itself." And since he gives short shrift to this fact, he never discusses the reasons that drove the Roosevelt administration to make gold ownership a felony and to pave the way for our current fiat-money regime.

The Power of Gold: The History of an Obsession is a masterpiece of misinformation and disinformation, of conceptual and factual errors about the gold standard, cloaked in a veritable blizzard of trivia. It makes for entertaining reading, but one won't learn why free men chose gold as the glue that holds society's web of promises together. □

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Can Japan Compete?

by Michael E. Porter, Hirotaka Takeuchi, and Mariko Sakakibara

Perseus Publishing • 2000 • 208 pages • $27.50

Reviewed by Victor A. Matheson

What a difference a decade makes. In the late 1980s Japan seemed poised to dominate the world economy. The Japanese had seemingly discovered an improved version of capitalism in which active government intervention in vital export-oriented sectors of the economy, along with protection of domestic firms from foreign competition, led to high growth rates, huge trade surpluses, and a highly equitable distribution of income.

In the '90s the Japanese economy came tumbling back to earth, suffering ten straight years of anemic growth with per capita GDP growth averaging less than 1 percent per year since 1990. Stock-market and real-estate prices have fallen to one-third of their astronomical highs of the late '80s. The unemployment rate in Japan has eclipsed the U.S. rate for the first time in recent memory. The Japanese government's budget deficits dwarf those run by the United States during the '80s and early '90s as a percentage of GDP, and the looming Japanese banking crisis makes the American savings-and-loan debacle appear like a mere bump in the road. What has happened to the Japanese juggernaut of a decade ago?

According to Harvard Business School guru Michael Porter, Japan's stunning success in highly visible fields such as automobiles and consumer electronics long masked a deeply inefficient and uncompetitive society and propped up an otherwise ailing economy. In their new book, *Can Japan Compete?,* a title that would have been unthinkable a decade ago, Porter and coauthors Hirotaka Takeuchi and Mariko Sakakibara make a strong case that the once lauded Japanese model of close government and business cooperation is largely responsible for Japan's current malaise.

It is easy to point out the Japanese success stories. Following the oil crises of 1973 and 1979 the Japanese auto industry came out of nowhere to take the U.S. market by storm. In the 1980s, Americans bought large numbers of inexpensive, high-quality Japanese television sets, VCRs, and audio systems. At the time, much of Japan's success in penetrating U.S. markets was credited to the actions of the Japanese government's all-wise Ministry of International Trade and Industry.

The authors argue that the successful Japanese industries prospered in spite of government assistance rather than because of it. They point out that the government played virtually no active role in the sectors, such as automobiles, in which Japan came to dominate world export markets. Indeed, in the 1950s, the government actually attempted to dissuade Honda, now Japan's most successful car company in terms of return on investment, from entering the automotive market.

On the other hand, Japan is not a major

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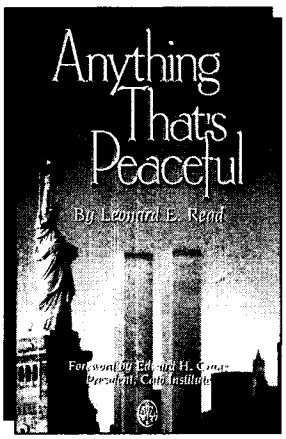
world player in sectors such as aerospace, chemicals, and most service industries, sectors in which the Japanese government has made its most concerted efforts to protect domestic producers and to engage in joint government and industry research-and-development projects. Similarly, Japan has made little headway in its bid to dominate the computer and semiconductor industries despite massive government investment.

Government intervention has not only failed to allow Japan to take over the world's economy, but Japan's protectionist policies have saddled the country with many inefficient and expensive industries. For example, the Japanese pay roughly twice as much for groceries, restaurant meals, apparel, and a multitude of other products and services as their counterparts in the United States and Britain.

Government intervention cannot take all the blame for Japan's current economic problems. The Japanese penchant for corporate cooperation is also responsible in part. Cozy relationships among banks, suppliers, and companies in related fields have tended to relax competition within the economy. Suppliers have little reason to innovate when their customers are guaranteed through these networks. Furthermore, while on the surface corporate cooperation seems to promote efficiency in the economy, in practice these arrangements tend to lead to many companies' producing essentially identical product lines.

All in all, the authors arrive at the conclusion that there is little substitute for vigorous competition in promoting productivity and economic growth, and government can best promote competition by staying out of the marketplace. If the past ten years of news reports about Japan's economy have failed to dispel the myth of the superiority of the Japanese system for any prospective reader, this insightful and thoroughly readable book will do the trick nicely. □

Victor Matheson is an assistant professor in the department of economics and business at Lake Forest College.



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IDEAS ON LIBERTY
NOVEMBER 2001

Bastiat and Unionism

The June issue of this magazine celebrated the 200th anniversary of the birth of the great French classical-liberal economist Frédéric Bastiat (1801–1850). Missing was a discussion of Bastiat's views on unions. I intend partly to fill that gap.

On November 17, 1849, Bastiat delivered a "Speech on the Suppression of Industrial Combinations" in the Legislative Assembly. He spoke in favor of repealing legislation that prevented workers from organizing unions and calling strikes. The speech startled both his traditional adversaries on the left (the socialists) and his occasional allies on the right (the conservatives). To the delight of the left and the chagrin of the right, he seemed to change sides. The truth is he simply consistently applied the same principles of classical liberalism that informed all of his positions on political economy.

He asked how the formation of "combinations" of workers could be an offense since they are examples of freedom of association.

> It is said: "It is the combination itself that constitutes the offense." I cannot accept this doctrine because the word combination is synonymous with association; it has the same etymology and the same meaning. Combination in itself, aside from the end it aims at and the means it employs, cannot be considered as an offense.

How about strikes? According to Bastiat, to say that a collective refusal to work is an offense in itself is tantamount to saying "that whoever refuses to work at wage rates that he does not accept will be punished." He then said:

> [I]s there any conscience that can admit that the strike is an offense in itself, independently of the means employed? Does a man not have a right to refuse to sell his labor at a rate that does not suit him?
>
> The reply to me will be: "All this may be true when only a single individual is involved, but it is not true when men have associated together for this purpose."
>
> But . . . an action that is innocent in itself is not criminal because it is multiplied by a certain number of men. . . . I do not understand, then, how one can say a strike is criminal. If one man has the right to say to another: "I don't want to work under such and such conditions," two or three thousand men have the same right; they have a right to quit. This is a natural right, which should also be a legal right.

Bastiat's approval of a strike in the sense of a group of like-minded workers each agreeing not to work under unacceptable terms and conditions of employment cannot be read as an endorsement of strikes as we know them today. Bastiat would call them legal plunder since pro-union statutes typically permit

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workers who refuse to work to try, through violence and threats of violence, to prevent other workers from taking their place. They permit strikers to trespass against the natural rights of association of others. In his words, "This then, is the offense: the well-known pressures—violence and intimidation. This is the offense; this is what you ought to punish."

The Law is a short book first published in 1850 in which Bastiat lays out, in characteristically clear and concise prose, his political philosophy based on God-given natural rights. It is here that he explains the proper (limited) scope of government and in so doing makes the distinction between illegal and legal plunder. For example, when government uses force to organize human activity it commits legal plunder.

> When justice is organized by law—that is, by force—this excludes the idea of using law (force) to organize any human activity what ever, whether it be labor, charity, agriculture, commerce, industry, education, art, or religion. The organizing by law of any one of these would inevitably destroy the essential organization—justice. For truly, how can we imagine force being used against the liberty of citizens without it also being used against justice, and thus acting against its proper purpose?

The job of the law is to protect all individuals from trespasses against their natural rights by other individuals. Justice means that all receive equal treatment by the law in its defense of those natural rights. When government does its job properly, the organization of labor (as well as the other items listed) arises spontaneously out of the decisions, plans, and actions of individuals in the legitimate pursuit of their self-interest. If government imposes an organization of labor through legislation, justice is destroyed.

Monopoly Unionism as Legal Plunder

Bastiat explicitly cited monopoly unionism as an example of legal plunder. "If the special privilege of government protection against competition—a monopoly—were granted only to one group in France, the iron workers, for instance, this act would so obviously be legal plunder that it could not last for long."

Bastiat reiterated his opposition to using law to organize labor on the grounds that legitimate law is negative while any law regulating labor is positive.

> [T]his negative concept of law is so true that the statement, the purpose of the law is to cause justice to reign, is not a rigorously accurate statement. In fact, it is injustice, instead of justice, that has an existence of its own. Justice is achieved only when injustice is absent.

> But when the law, by means of its necessary agent, force, imposes upon men a regulation of labor . . . it acts positively on people. It substitutes the will of the legislator for their own wills; the initiative of the legislator for their own initiatives.

Bastiat emphasized that his insistence on negative law and the right of individuals to abstain from associations they dislike do not imply that he was opposed to associations per se.

> [W]e repudiate only forced organization, not natural organization. We repudiate the forms of association that are forced upon us, not free association. We repudiate forced fraternity, not true fraternity. We repudiate the artificial unity that does nothing more than deprive persons of individual responsibility. We do not repudiate the natural unity of mankind under Providence.

Although unionism was a new phenomenon in the first half of the nineteenth century, Bastiat saw that it was nothing special. It could and should be subject to the few simple rules of classical liberalism. That it wasn't made generations of workers worse off than they otherwise would have been. □

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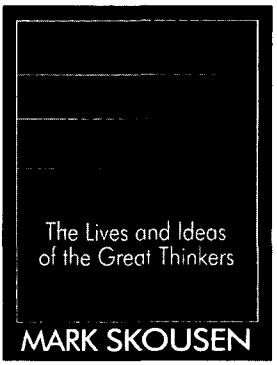

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